Policy Analysis

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Routing

Federal Aid to the States
Historical Cause of Government Growth and Bureaucracy

by Chris Edwards

Executive Summary

In recent years, members of Congress have inserted thousands of pork-barrel spending projects into bills to reward interests in their home states. But such parochial pork is only a small part of a broader problem of rising federal spending on traditionally state and local activities.

Federal spending on aid to the states increased from $286 billion in fiscal 2000 to an estimated $449 billion in fiscal 2007 and is the third-largest item in the federal budget after Social Security and national defense. The number of different aid programs for the states soared from 463 in 1990, to 653 in 2000, to 814 by 2006.

The theory behind aid to the states is that federal policymakers can design and operate programs in the national interest to efficiently solve local problems. In practice, most federal politicians are not inclined to pursue broad, national goals; they are consumed by the competitive scramble to secure subsidies for their states. At the same time, federal aid stimulates overspending by the states, requires large bureaucracies to administer, and comes with a web of complex regulations that limit state flexibility.

At all levels of the aid system, the focus is on spending and regulations, not on delivering quality services. And by involving all levels of government in just about every policy area, the aid system creates a lack of accountability. When every government is responsible for an activity, no government is responsible, as was evident in the aftermath of Hurricane Katrina.

The failings of federal aid have long been recognized, but reforms and cuts have not been pursued for years. Aid has spawned a web of interlocking interests that block reform, including elected officials at three levels of government, armies of government employees, and thousands of trade associations representing the recipients of aid.

Yet the system desperately needs to be scaled back, not least because the rising costs of federal programs for the elderly are putting a squeeze on the federal budget. To help spur reform, this study examines the historical growth of the aid system and describes its failings. Congress should reconsider the need for aid and begin terminating activities that could be better performed by state and local governments and the private sector.

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The Tenth Amendment embodies federalism, the idea that federal and state governments each have separate areas of activity and that federal responsibilities are "few and defined."

Introduction

Under the Constitution, the federal government has specific limited powers and most government functions are left to the states. Federal powers enumerated in the Constitution include those aimed at providing national security and those designed to ensure an open national economy. To make sure that people understood the limits on federal power, the Framers added the Constitution's Tenth Amendment: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people."

The Tenth Amendment embodies federalism, the idea that federal and state governments each have separate areas of activity and that federal responsibilities are "few and defined," as James Madison noted. Historically, federalism acted as a safeguard of American freedoms. As President Ronald Reagan noted in a 1987 executive order, "Federalism is rooted in the knowledge that our political liberties are best assured by limiting the size and scope of the national government."[1]

Unfortunately, policymakers and courts in recent decades have discarded federalism. Congress has undertaken many activities that were traditionally reserved to the states and the private sector. The Supreme Court has embraced looser readings of the limits on federal power over time. Indeed, after a number of troubling Court decisions in the 1980s, a government commission on intergovernmental relations concluded that the rulings overturned "the long-standing doctrine that the federal government is one of limited, delegated power, thus opening the way for virtually unfettered exercises of national power vis-à-vis the states and local governments."[2]

Federal power has continued to expand under the administration of George W. Bush. Today, federal spending and regulatory activity are directed to nearly any state and local activity that suits the whims of Congress and executive branch agencies.

The primary means that the federal government uses to intervene in state activities are grants-in-aid and accompanying regulations. Grants-in-aid ("grants" or "aid") are subsidies to state and local governments aimed at promoting particular activities such as highway building. Federal granting began during the late 19th century, expanded during the early 20th century, and ballooned during the 1960s. Today, more than 800 federal grant programs shower the states with hundreds of billions of dollars each year.

What are the practical effects of this torrent of aid and how has it altered the structure of American government? This study looks at the role of policymakers and bureaucrats in the growth of aid and focuses on the failings of aid, which have been evident to policy experts for decades. Federal aid has generated intense spending pressures and excess bureaucracy at all three levels of government.

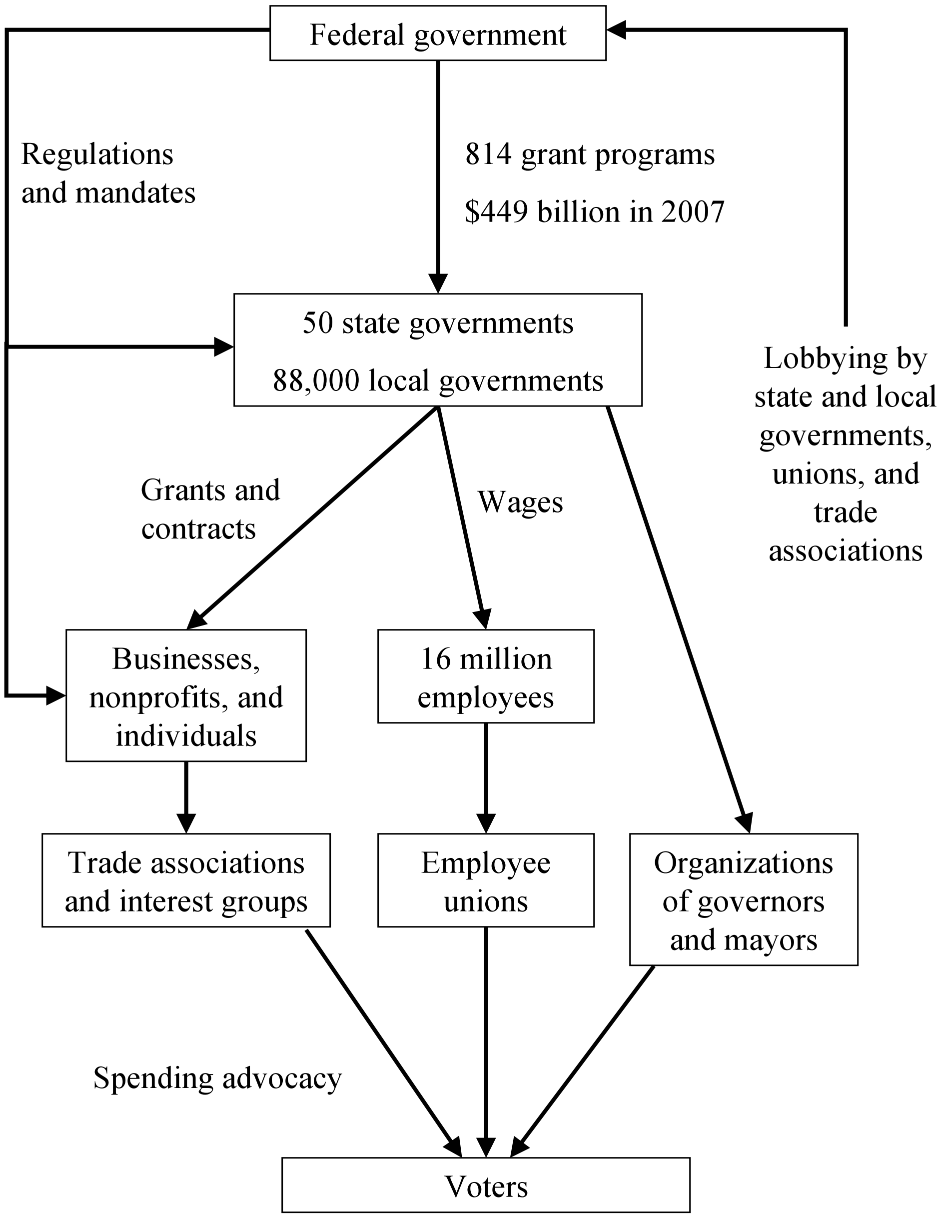
Figure 1 illustrates the interlocking parts of the federal aid system. Federal politicians create programs that deliver funding to, and impose regulations on, state and local governments. Those governments then consume a portion of aid in employee wages and other administrative costs and hand out billions of dollars to private-sector grantees and contractors. State and local employees and private organizations, which benefit from aid, create unions and trade associations to lobby Congress and promote higher spending to the public.

The following sections discuss how these parts of the aid system work together to generate bigger government. The first section provides a history of federal aid and presents data on the expansion in the number of programs. Then the roles of federal and state politicians and lobbyists are examined. That is followed by a discussion of the bureaucracies in the three levels of government that distribute aid and deal with regulations. The conclusion summarizes why aid should be a priority target for federal budget cuts.

Federal Aid Has Grown Massive and Complex

Prior to the Civil War, proposals to provide federal subsidies for state and local activities

Figure 1
The Federal Aid System



were occasionally introduced in Congress, but they were routinely voted down or vetoed by presidents for being unconstitutional. In 1817 President James Madison vetoed a bill that would have provided federal aid to construct roads and canals.[3] In 1830 President Andrew Jackson vetoed a bill to provide aid for a road project in Kentucky arguing that it was of "purely local character" and that funding would be a "subversion of the federal system."[4] In 1854 President Franklin Pierce vetoed a bill that would have provided aid to the states for the indigent insane, also citing federalism reasons.

Spending was dispersed in the states as a side effect of federal activities such as troop

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deployments and Post Office services.[5] And the federal government approved grants of land to the states for schools, roads, and canal projects. Congress approved funding from the proceeds of land sales to construct the historic National Road in 1806.[6] But in 1822 President James Monroe vetoed legislation for funding maintenance of the road because of constitutional concerns about federal overreach. (The National Road was handed over to the states in the 1830s.)

However, there were no grant programs that disbursed cash to the states for ongoing activities. That started to change toward the end of the 19th century. The Morrill Act of 1862 provided grants of federal land to the states for the establishment of colleges that focused on agriculture, mechanical studies, and the military. That was the first grant program with "strings attached." It included detailed rules for recipients to follow, and it required them to submit regular reports to the federal government. (An earlier version of the Morrill bill in 1859 raised a storm of protest about its constitutionality, and it was vetoed by President James Buchanan.)[7]

In 1879 Congress provided funds to a private nonprofit group in order to distribute to the states educational materials for the blind. In 1887 the Hatch Act, the first cash grant program, provided subsidies to the states for agricultural research.[8] An 1888 act provided aid to the states for veterans' homes. A second Morrill Act in 1890 began regular appropriations for the land-grant colleges.

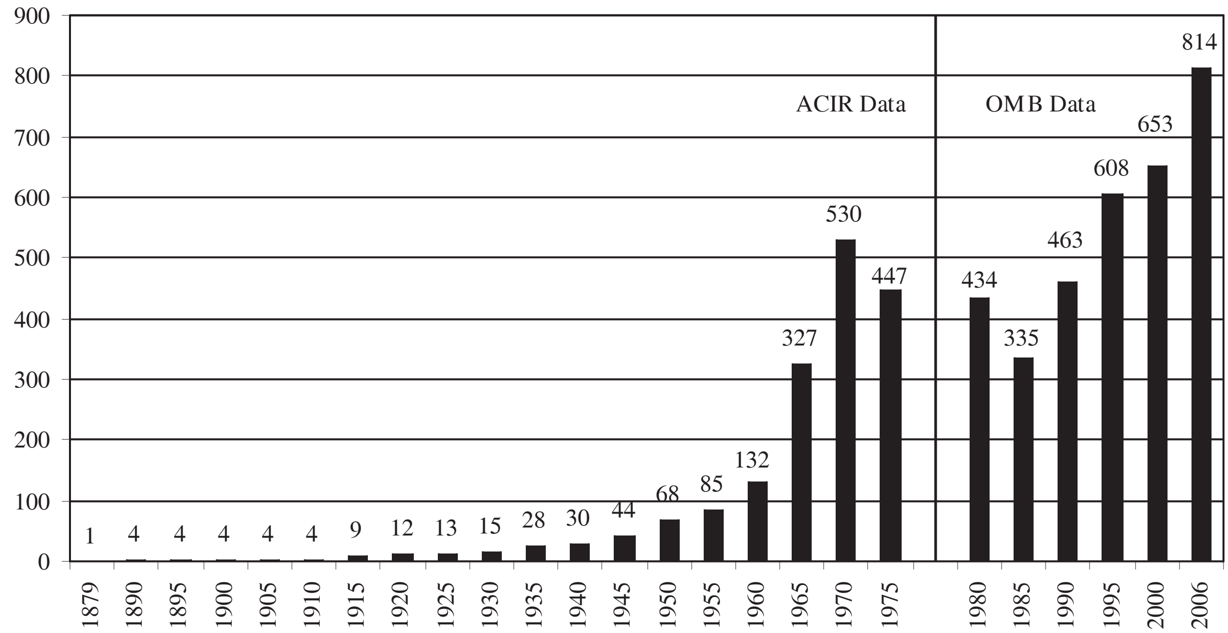
Federal aid activity increased substantially in the early 20th century. The "dual federalism" of the 19th century was being replaced by what became called "cooperative federalism." When the income tax was introduced in 1913, it provided the means for policymakers to finance a large range of new federal aid programs. Here are some of the early aid laws:[9]

- The Weeks Act of 1911 provided aid to the states for forest fire prevention.
- The Smith-Lever Act of 1914 provided subsidies to land-grant colleges for agricultural education.
- The Federal Aid Roads Act of 1916 provided aid to the states to build highways, based on the premise that road funding supported federal mail delivery. The federal government had not provided funding to the states for roads since the subsidies for the National Road had ended in the 1830s.
- The Smith-Hughes Act of 1917 created grants for teacher salaries and teacher training in vocational education.
- The Chamberlain-Kahn Act of 1918 provided aid to the states for combating venereal disease.
- The Fess-Kenyon Act of 1920 provided aid to the states for vocational rehabilitation, or the training of persons who had been disabled in industry.
- The Sheppard-Towner Act of 1921 provided aid to the states "for the promotion of the welfare and hygiene of maternity and infancy."

Those seven early aid programs had features and faults that were similar to those of today's aid programs. All seven programs required the states to match federal funds on a dollar-for-dollar basis—federal aid was called the "fifty-fifty system." As discussed below, matching requirements induce excess spending and divert state-source funds from other, perhaps higher, priorities of each state. If states are induced to spend more of their funds on farm subsidies, for example, they may have less to spend on their justice systems.

The new aid programs usually mandated an expansion in state and local bureaucracies. Aid programs required the states to set up new boards and agencies to oversee government spending on the prescribed activities. The 1916 act required states to create highway departments; the 1917 act required the states to establish vocational education boards; the 1921 act required states to create children's bureaus; and so on. The states had to create detailed plans for their activities, file regular reports to Washington, and be subject to inspection by federal officials regarding their use of aid funds. Regarding the 1916 Roads

Figure 2
Number of Federal Aid Programs for the States



Sources: Advisory Commission on Intergovernmental Relations, "Fiscal Balance in the American Federal System," vol. 1, October 1967; and Office of Management and Budget, Budget Systems and Analysis Division, "The Number of Federal Grant Programs to State and Local Governments: 1980 to 2004," unpublished, April 8, 2005. The 2006 figure is author's estimate based on OMB methodology.
Note: The ACIR data for 1980 through 1995 show about 60 more programs, on average, than the OMB data.

Act, a contemporary observer noted that it required the states to send a "vast amount of detailed information" to Washington.[10]

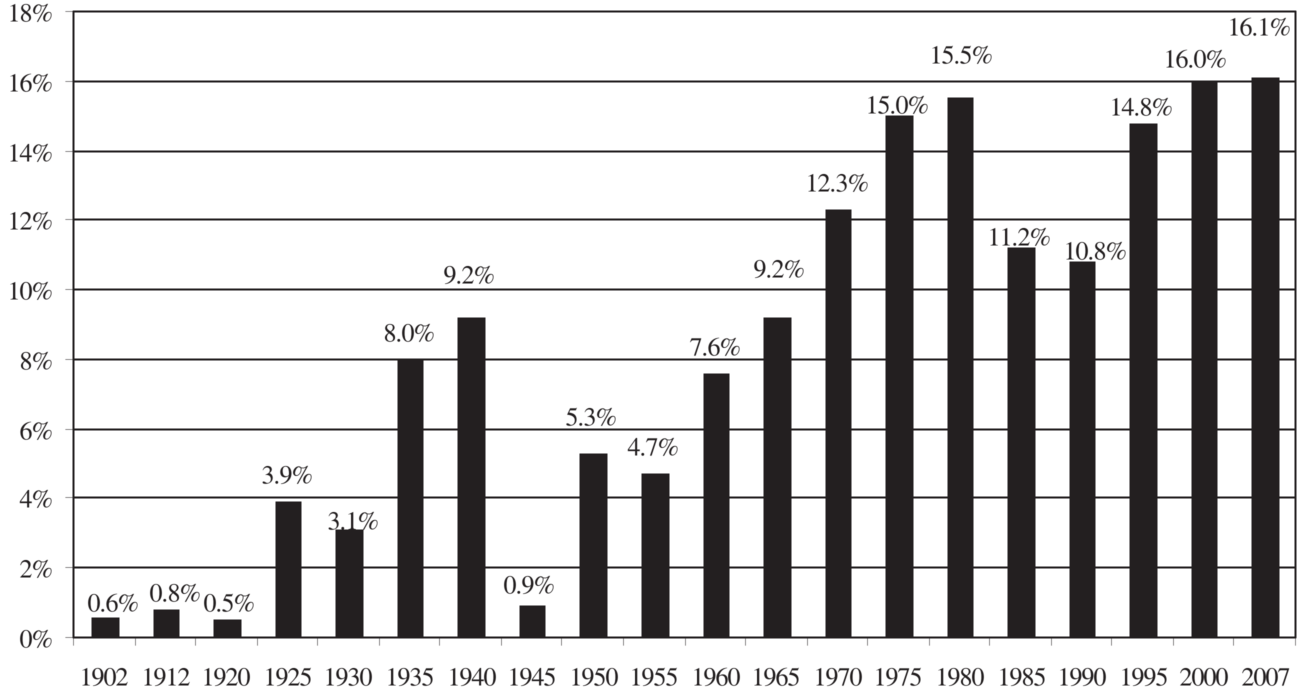
There were other strings attached to the early aid programs. People began noticing that by funding just a portion of state activities, the federal government was gaining control over state policy in certain areas. For example, through aid the federal government began influencing the employment policies of the states.[11] And in order to receive aid, states were often required to pass legislation that regulated state and local activities in ways sought by Congress. For example, a highway aid act in 1921 brought pressure on the states to increase the powers of their highway departments and expand controls over local road-building activities.[12]

Various sleights of hand were used to get around constitutional concerns about expanded federal power. Funding for the 1890 Morrill Act was supposed to come from the proceeds of federal land sales in the states, which was longstanding practice, but in practice the funds came from regular appropriations. The 1916 road subsidy law aimed to fund "post roads," or those that were used for federal mail delivery, but Congress defined that extremely broadly.[13] The 1911 aid bill was supposed to fund state forest fire prevention only near navigable rivers, and that provided a constitutional pretence for those activities as being related to interstate commerce.[14]

Figure 2 shows the number of aid programs for the states beginning with the education program of 1879. By 1930 there were 15 federal aid programs. As Congress added and expanded programs, the budget costs rose. Figure 3 shows that aid jumped from less than 1 percent of federal spending to more than 3 percent during the 1920s. The costliest aid activity at that time was highway funding.

It was getting harder to hold the line on federalism as politicians became increasingly

Figure 3
Federal Aid to the States, Share of Total Federal Outlays



Sources: Author's calculations based on various sources (1902–35); and *Budget of the United States Government: Fiscal Year 2008* (1940–2007).
Notes: Fiscal years. Data for 1935 were adjusted to exclude a temporary spike in aid. Note that the aid share falls in 1945 because defense spending vastly increased the overall budget.

activist and new lobbying groups were established. Labor unions pushed for federal funding of vocational education and succeeded with the passage of the Smith-Hughes Act in 1917. The passage of the 1916 road bill was preceded by the introduction of at least 62 different road subsidy bills in Congress.[15] State highway officials had formed a national organization in 1914 with an office in Washington to press for aid, and highway lobbying groups helped draft the 1916 bill.[16]

Nonetheless, there was resistance to the growth in aid, and the shortcomings of aid programs were already becoming evident.[17] President Calvin Coolidge was a frequent and pointed critic of the aid system. In his budget message for 1926, Coolidge declared:

> I am convinced that the broadening of this field of activity is detrimental both to the federal and state governments. Efficiency of federal operations is impaired as their scope is unduly enlarged. Efficiency of state governments is impaired as they relinquish and turn over to the federal government responsibilities which are rightfully theirs. I am opposed to any expansion of these subsidies. My conviction is that they can be curtailed with benefit, to both the federal and state governments.[18]

Some leaders in the higher-income East Coast states strongly opposed expansions in aid. Gov. Albert Ritchie of Maryland said that the "system ought to be abolished, root and branch" with the money "left in the states for the states to use for their own local needs and purposes."[19] But the less-populated states used their disproportionate power in the Senate to vote for aid programs knowing that their states would receive large benefits while paying only a small part of the costs.[20]

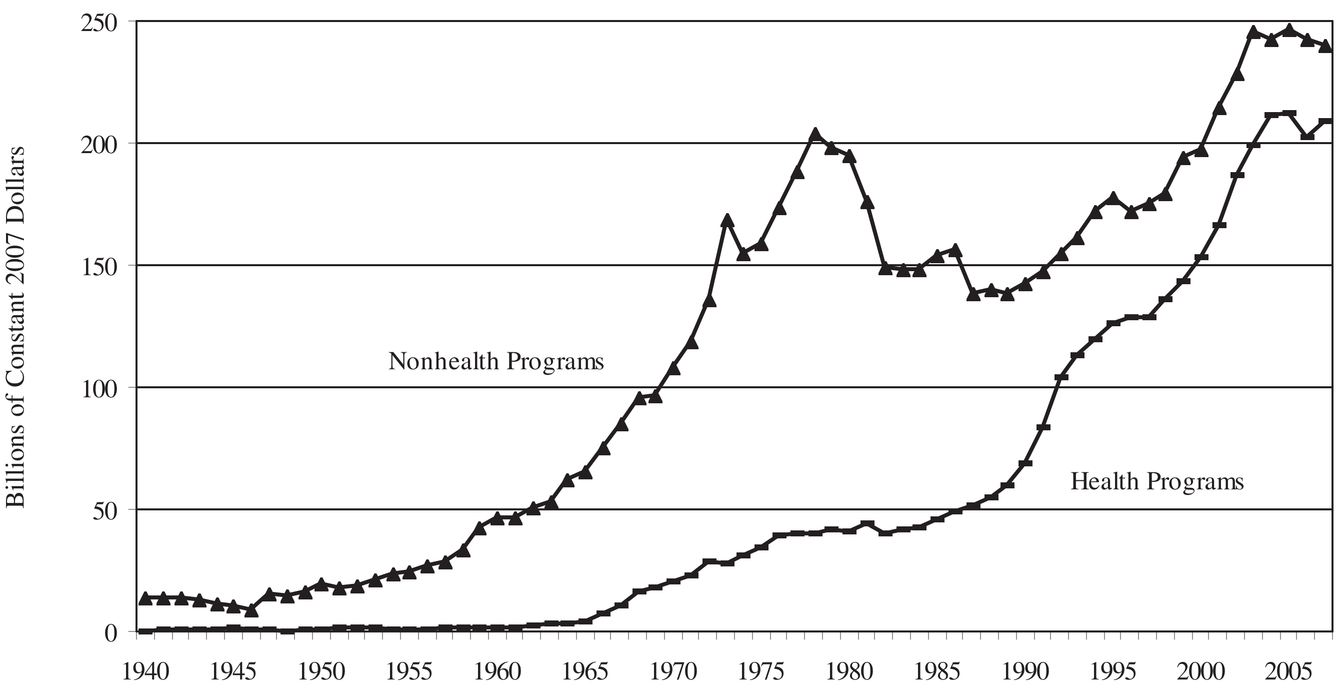
Proponents of aid were persistent, and, as aid bills began to pass, new interest groups were formed and Congress began getting bombarded with requests for subsidies of all kinds.[21] A few states initially refused to take part in some of the aid programs, but an observer at the time said that most states "to get a few millions they shamelessly barter away their birthright" of reserved powers under the Constitution.[22] Of course, it was politically difficult for states to opt out of federal subsidy programs because, if they did, their residents would still have to pay federal taxes to support the subsidies paid to other states.

By the time President Franklin Roosevelt came to office, many legal and political precedents had already been set for the large expansions in aid enacted under the New Deal. In the 1930s aid programs were created for public housing, welfare, employment, and many other activities. The Federal Emergency Relief Act of 1933 provided more than $3 billion to the states over two years for work relief.[23] The main federal aid program for welfare, Aid to Dependent Children, was enacted in 1935.

By 1940 the number of federal aid programs had increased to 30, and aid spending had soared to 9.2 percent of the federal budget. By 1945 aid had fallen as a share of the budget because defense spending had pushed overall spending up. Figure 4 shows federal aid to the states in constant dollars. It indicates that aid spending was fairly flat during the 1940s.

Federal aid expanded during the 1950s, with the number of aid programs almost doubling from 68 in 1950 to 132 by 1960. That expansion occurred despite President Dwight Eisenhower's expressed concerns about federalism. Eisenhower had established a commission in 1953 to identify federal activities that could be returned to the states, but unfortunately no reforms were enacted.[24] The largest new grant program during this era was the

Figure 4
Federal Aid to the States, Constant 2007 Dollars



Source: Author's calculations based on *Budget of the United States Government: Fiscal Year 2008*.

Federal-Aid Highway Act of 1956, which authorized $25 billion of spending over a decade on the interstate highway system.

The Highway Act provides an illustration of how federal regulatory controls started coming as a package deal with federal dollars. The act imposed on all state highway projects that received federal money Davis-Bacon rules, which mandated that construction workers be paid "prevailing wages." That usually had the effect of increasing labor costs on projects at taxpayer expense. Because many states were already constructing their own highway systems in the mid-1950s, one effect of the 1956 act was to increase the costs of many highways that would have been built anyway.

Federal aid exploded during the 1960s. The number of aid programs quadrupled from 132 in 1960 to 530 by 1970.

Federal aid exploded during the 1960s. Figure 2 shows that the number of aid programs quadrupled from 132 in 1960 to 530 by 1970. Under President Lyndon Johnson, new aid programs were added for housing, urban renewal, education, health care, environmental protection, and many other activities. The Congressional Research Service noted that "more grant programs were enacted during the Johnson Administration (1963–69) than in all preceding years in U.S. history combined."[25] There were 109 separate aid programs for the states enacted in 1965 alone.[26]

Aid spending rose from $48 billion in 1960 to $129 billion by 1970, measured in constant 2007 dollars. President Johnson called his policies "creative federalism," but his activism dealt a severe blow to the federalism of the nation's Founders. By the end of the 1960s, many policymakers believed that the federal government should spend money on just about any activity that it wanted, and questions regarding constitutional propriety were seldom considered anymore.

The huge growth in federal aid in the 1960s occurred for many reasons. Policymakers were fooled by the mirage that "federal resources" appeared to be limitless compared to the tax revenues available to individual states. Of course, the ultimate source of the federal money distributed to the states is the taxpayers who live in the 50 states, but policymakers have always ignored this inconvenient truth.

Many policymakers and academics support aid to the states because they see it as a way to advance the cause of wealth redistribution. Liberals prefer that government programs be funded at the federal level because the federal tax system is more graduated, or "progressive," than state tax systems. A scholar of federal aid, Howard Chernick of Hunter College, New York, begins one of his studies on aid with a view common in academia:

> In a decentralized federal system such as the United States, the realization of distributional goals requires the joint fiscal effort and cooperation of several layers of government. If fiscal responsibility for redistribution were left entirely to subnational levels of government, then states with weak fiscal capacity or limited preferences for redistribution might choose benefits and levels of access that fall below minimum national standards of adequacy.[27]

In Chernick's view, apparently, it is impermissible for any state to have less of a preference for redistribution than Washington deems appropriate. Chernick presents the problem of "weak fiscal capacity" as an unavoidable disease that states cannot fix by themselves with pro-growth economic policies. Congress needs to step in and create "minimum national standards" because some states are hopelessly weak and likely to make poor choices if left to themselves. These sorts of views have been popular among proponents of aid since the beginning of the aid system.

The views of advocates of aid are infused with a belief in the "public interest theory of government," which is the idea that policymakers act with the best interests of the broad general public in mind. In past decades, conventional wisdom held that the federal government could be effective and efficient at solving local problems. Are there poor people and blighted buildings in your city? Let us use the seemingly unlimited resources of the federal government to hire experts, bulldoze the blight, and build modern high-rises to solve the problem. That type of top-down thinking was behind the creation of aid programs for urban renewal, housing, education, and many other activities.

We know today that the federal government is not very good at solving local problems, and fewer scholars believe in the public interest theory of government. Even casual observation of Congress reveals that policymakers put the various narrow interests of their states above all else most of the time. Aid is the perfect tool to satisfy parochial special interests, and that is why the aid empire prospers today—not because experts believe that it works well.

Growing Aid, Growing Problems

The unchallenged optimism of the 1960s about the federal government's ability to solve state and local problems did not last. By the late 1960s, budget analysts were becoming alarmed at the growing complexity and overlap of federal grants. Two of President Johnson's top economic advisers and other experts began to push for consolidation of narrow "categorical" grants into broader and more flexible "block" grants.[28]

Categorical grants fund a narrow range of eligible activities subject to detailed federal rules that state governments are required to follow. Until the 1960s, all grants were categorical grants, and the vast majority still are. Categorical grants are very complex, and as far back as the Hoover Commission in 1949 experts had proposed replacing them with block grants.[29] Block grants generally have simpler rules and allow the states more flexibility. Both Presidents Harry Truman and Dwight Eisenhower proposed block grants, but those reforms were not enacted.[30]

Congress passed the first block grant in 1966, which converted 16 existing health care grants into a single broader program. A block grant for law enforcement was enacted in 1968. But those small reforms were overwhelmed by the avalanche of new categorical grants being enacted in the late 1960s. The number of programs seems to have reached a temporary peak in the early 1970s and then declined for a few years as the pace of program creation slowed and some existing programs were consolidated. According to data from the Advisory Commission on Intergovernmental Relations, the number of programs declined to about 447 by 1975, then began climbing again to reach roughly 500 by 1980. However, different ACIR reports show somewhat different program counts during this period.

While fewer new programs were added during the 1970s, the cost of aid programs soared as spending on all the programs created during the 1960s kicked into overdrive. Figure 4 shows that spending on aid for both health and nonhealth programs roughly doubled during the 1970s, measured in constant dollars.

President Richard Nixon took some modest steps toward consolidating the burgeoning aid system into block grants. He understood that categorical grants were complex and promoted special interest lobbying. Nixon argued that federal aid had become a "terrible tangle" of overlap and inefficiency.[31] In his 1971 State of the Union address, Nixon lambasted "the idea that a bureaucratic elite in Washington knows best what is best for the people," and he said that "the time has now come in America to reverse the flow of power and resources from the states and communities to Washington."[32]

Nixon's reforms fell far short of his rhetoric, and just a few of his "new federalism" initiatives were enacted. Nixon succeeded in creating three block grants.[33] In addition, an extreme form of block grant, "revenue sharing," was begun in 1972 to give funding to the states with almost no strings attached. The problem was that revenue sharing did not substitute for existing grants—it was added on top. Liberals generally supported Nixon's revenue sharing because it shifted funding of the welfare state from flatter state tax systems to the more graduated federal system. Revenue sharing was abolished in 1986.

Consolidation of narrow grants into broader block grants made sense to budget experts, but members of Congress usually favored categorical grants because they could be better targeted toward special interests. The expansion

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of categorical grants was in sync with the increasingly fragmented committee structure in Congress in the mid-20th century. That is, the number of aid programs grew as the number of committees and subcommittees grew. Each committee and subcommittee wanted its own realm of programs to preside over.

During the 1970s, there were growing concerns about the complexity of the mushrooming federal aid system. A 1973 report by the Tax Foundation noted that the proliferation and complexity of grants had "been accompanied by increasingly heavy criticism, even by supporters of expanded federal assistance."[34] On the campaign trail in 1976, Jimmy Carter denounced the "awful federal bureaucracy."[35] When he came into office he proposed a "concentrated attack on red tape and confusion in the federal grant-in-aid system."[36] Carter pursued a number of modest reforms, but like Nixon he did a better job describing the aid problem than enacting solutions.

The bipartisan and highly respected Advisory Commission on Intergovernmental Relations criticized many aspects of the federal aid system through the 1960s, 1970s, and 1980s. In a report in 1978, the ACIR concluded that "the reach of federal aid is sweeping. Virtually every state and local activity can be assisted by some federal program."[37] In 1980 ACIR published an 11-volume study on federalism, which concluded that Washington's power had become "more pervasive, more intrusive, more unmanageable, more ineffective, more costly, and, above all, more unaccountable."[38] In an ironic twist, the ACIR, which was a rare government agency that criticized government programs, was one of the few agencies abolished by the Republicans in the 1990s.

The Government Accountability Office also criticized the federal aid system. In 1979 it found that the "problems created by our complex intergovernmental system are enormous."[39] The GAO noted:

> The federal assistance system is an array of often conflicting activities and initiatives which defy understanding to all but the most serious students of the system. . . . During the 1960s, the explosion in the number of federal programs made shortcomings in the [aid] system apparent. Studies showed that red tape, delays, and vast amounts of paperwork were characteristics common to most federal [aid] programs.[40]

President Ronald Reagan came into office promising to respond to such concerns and to revive federalism. He tried to cut aid spending, convert existing aid programs to block grants, and transfer some activities back to the states. He was modestly successful with his first two goals. The Omnibus Budget Reconciliation Act of 1981 eliminated 59 grant programs and consolidated 80 categorical grants into 9 block grants.[41] That consolidation substantially reduced the regulatory burden of those programs, at least initially. For example, 33 education programs were collapsed into one block grant, which reduced the length of related regulations from 667 pages to just 20 pages.[42]

However, Reagan was not successful in his third goal. In 1982, under his "new federalism" agenda, he sought to re-sort federal and state priorities such that each level of government would have full responsibility for certain activities. For example, Reagan proposed that welfare and food stamps be both financed and operated by the states.[43] Reagan also proposed "turnback" legislation to end about 40 federal programs. Thus he proposed that the federal government end most highway programs and cancel the federal gasoline taxes that supported them.

In his 1983 budget message, Reagan argued that "during the past 20 years, what had been a classic division of functions between the federal government and the states and localities has become a confused mess."[44] Reagan pushed throughout his time in office to straighten out the mess. He managed to end revenue sharing in 1986, which might have grown into a massive spigot of subsidies for the states if it had remained in place.

Figures 2, 3, and 4 show that Reagan had some success in cutting federal aid. Both aid spending and the number of aid programs were cut substantially during the early 1980s. Data from the Office of Management and Budget show that the number of aid programs for the states was cut from 434 in 1980 to 303 in 1982 before beginning to rise again.[45] ACIR data show similar program reductions under Reagan.

A few caveats regarding the data should be noted. OMB data on the number of aid programs are not available before 1980, while ACIR data are not available after 1995. But during the years of overlap (1980–95), the ACIR typically counted about 60 more programs than did the OMB. For this reason, Figure 2 understates the growth in the number of programs since the 1970s. On the other hand, the OMB revised its methodology for counting programs in 2004, with the effect of increasing the program count and overstating the change shown in Figure 2 between 2000 and 2006.

Reagan's progress in cutting aid programs was reversed by President George H. W. Bush. Aid spending and the number of programs grew rapidly in the early 1990s. Then in the mid-1990s, the new Republican congressional majority tried again to revive federalism. Their biggest success was welfare reform in 1996, which turned open-ended categorical welfare aid into a block grant. That had the benefit of making federal costs more controllable.

The Republicans saved a modest $2 billion annually by eliminating 73 small aid programs, although that effort was offset by the establishment of new programs. They did pass the Unfunded Mandates Reform Act of 1995, which modestly restrained the federal government's ability to impose costly regulations on the states. But the Republicans were unsuccessful in larger federalism reform efforts, such as abolishing the Department of Education and turning Medicaid into a block grant.

Since the mid-1990s, there have been no serious efforts to reform or cut the federal aid system, even though it is larger and more costly than ever. The system's many failings, which were discussed often during the 1970s and 1980s, have only become more acute as hundreds of new programs have been added since then.

The current Bush administration has expanded the aid system rather than tried to restrain it. Department of Education outlays have doubled since 2000 as President Bush has taken steps to further nationalize local public schools. In other areas, the Bush administration's faith-based and marriage initiatives have hooked thousands of private organizations on federal subsidies. Richard Nathan, an architect of Nixon's new federalism, opined that Bush's policies "have reflected a willingness to run roughshod over state governments that is out of character with previous Republican administrations."[46]

The Federal Aid Empire Today

The number of aid programs increased from 653 in 2000 to 814 in 2006.[47] Aid spending rose from $351 billion in fiscal 2000 to an estimated $449 billion in fiscal 2007, measured in constant 2007 dollars.[48] Federal aid to the states is the third-largest item in the federal budget after Social Security ($582 billion in fiscal 2007) and national defense ($569 billion).

Figure 4 shows that spending on both health and nonhealth aid soared during the 1990s and then flattened out after 2003. One reason that spending on aid for health appears to have slowed is that billions of dollars of costs for prescription drugs have been moved from Medicaid, which is a state aid program, to Medicare, which is not a state aid program.

As aid has grown, state and local government budgets have become dependent on it. In the 1950s federal aid averaged 12 percent of state and local budgets.[49] That share soared during the 1960s and 1970s, reaching a peak of 27 percent in 1978. With the retrenchment during the Reagan years, the share fell to less than 17 percent in the late 1980s. But since then the aid share of state and local budgets has rebounded, rising to 22 percent by 2005. As discussed below, those large flows of aid have turned state and local governments into some of Washington's biggest lobbyists.

The five largest federal aid programs are Medicaid ($192 billion in fiscal 2007), highway

The number of aid programs increased from 653 in 2000 to 814 in 2006.

Table 1
A Sampling of Federal Aid Programs for the States
(*CFDA* program number, short title, and spending in 2006)

Agriculture		
10.555	National School Lunch	$7,457,572,000
10.574	Team Nutrition Grants	10,038,000
10.576	Seniors Farmers Markets	15,000,000
10.760	Waste Disposal for Rural Communities	456,390,000
10.855	Distance Learning and Telemedicine	54,410,012
Education		
84.011	Migrant Education State Grants	376,524,000
84.027	Special Education	10,582,961,000
84.083	Women's Educational Equity Act	2,926,000
84.186	Safe and Drug-Free Schools and Communities	346,500,000
84.367	Improving Teacher Quality	2,887,439,000
Health and Human Services		
93.086	Healthy Marriage and Responsible Fatherhood	150,000,000
93.235	Abstinence Education	50,000,000
93.276	Drug-Free Communities	16,621,505
93.568	Low-Income Home Energy Assistance	2,979,703,000
93.959	Prevention and Treatment of Substance Abuse	1,670,661,450
Housing and Urban Development		
14.169	Housing Counseling Assistance	42,000,000
14.228	Community Development Block Grants	12,605,900,261
14.250	Rural Housing and Economic Development	16,830,000
14.850	Public and Indian Housing	3,565,223,000
14.901	Healthy Homes Demonstration Grants	4,400,000
Interior		
15.022	Tribal Self-Governance	297,000,000
15.030	Indian Law Enforcement	114,620,400
15.052	Litigation Support for Indian Rights	1,431,000
15.605	Sport Fishing Restoration	290,359,836
15.626	Hunter Education and Safety	8,000,000
Justice		
16.525	Violent Crimes Against Women on Campus	$8,938,000
16.580	Byrne State and Local Law Enforcement Aid	189,255,557
16.595	Weed and Seed	49,361,400
16.710	Public Safety Partnership and Community Policing	472,191,152
16.727	Enforcing Underage Drinking Laws	23,220,238
Labor		
17.235	Senior Community Service Employment	94,000,000
17.259	WIA Youth Activities	926,393,000
17.260	WIA Dislocated Workers	1,181,000,000
17.264	Migrant and Seasonal Farmworkers	80,000,000
17.269	Community Based Job Training	125,000,000

Transportation		
20.106	Airport Improvement	3,423,404,000
20.205	Highway Planning and Construction	24,244,734,429
20.601	Alcohol Traffic Safety and Drunk Driving	125,000,000
20.609	Safety Belt Performance Grants	124,500,000
20.930	Payments for Small Community Air Service	10,000,000
Environmental Protection		
66.032	State Indoor Radon Grants	7,438,900
66.036	Clean School Bus USA	6,270,000
66.308	Environmental Justice Research Assistance	1,000,000
66.458	Capitalization Grants for Clean Water	886,759,100
66.818	Brownfields Assessment and Cleanup	69,900,000
Other Aid Programs		
23.003	Appalachian Development Highway System	470,000,000
45.313	Laura Bush 21st Century Library Program	23,760,000
81.042	Weatherization Assistance	227,000,000
97.012	Boating Safety Financial Assistance	95,000,000
97.044	Assistance to Firefighters	524,442,600

Source: Author's compilation from the *Catalog of Federal Domestic Assistance*. These spending totals may differ from outlay amounts in the federal budget.

construction ($39 billion), Temporary Assistance for Needy Families ($17 billion), education for the disadvantaged ($14 billion), and Section 8 housing subsidies ($15 billion).[50]

Table 1 provides a sampling of aid programs in order to illustrate the diversity of activities that the federal government subsidizes. Couldn't state and local governments or the private sector fund those activities? Do we really need the federal government involved in school lunches, farmers' markets, hunter education, seniors' community service, airport improvement, and boating safety? If First Lady Laura Bush wants to give $24 million to libraries, shouldn't she collect the funding privately, instead of imposing on taxpayers to pay for the Laura Bush 21st Century Library Program?

Another curious program is Sport Fishing Restoration.[51] In fiscal 2006 the U.S. Fish and Wildlife Service program handed out to state governments $290 million in grant money raised from various excise taxes and import duties.[52] In 2000 the GAO criticized the program's mismanagement and "culture of permissive spending," but the agency seems to have since cleaned up its act.[53] In 2006 federal administration costs for the program were $22 million, and it's not hard to see where the money goes when you examine the program's activities.[54] For example, program officials at different levels seem to get together for frequent meetings in locations such as Las Vegas, Charleston, and Lake Placid.[55]

While "fishing restoration" sounds like an environmental activity, many of the grants in this program go toward building boat launches, parking lots, piers, and other items that don't do much for nature. Federal rules require that at least 15 percent of this program's funds be spent on improving boating access to lakes and rivers.[56] One $1.2 million "fishing restoration" grant was for a MegaDock for luxury yachts at Charleston City Marina. An article in *Boating News* described how the "new extension will serve to attract larger yachts. The largest yacht to tie up to date was 300 feet."[57] That's good news for wealthy boat owners. The bad news is that "reportedly, over half of the funds are used for administration, not leaving very much for the proposed projects."[58]

Do we really need the federal government involved in school lunches, farmers' markets, hunter education, seniors' community service, airport improvement, and boating safety?

Types of Aid

The 814 federal aid programs for the states generally take the form of either "for-

Earmarking occurs when the grant process is hijacked by individual members of Congress seeking to divert funds to particular projects in their districts.

mula" or "project" grants.[59] While most aid programs are project grants, most aid spending is on formula grants. That is because many of the largest aid programs, including Medicaid, are formula grants.

Under formula grants, legislation spells out how much funding each state is to receive on the basis of factors such as state income and population. The states are often required to match some portion of the federal government's aid with their own funding. Generally, the smaller a state's required funding share, the more it will be induced to increase spending on an activity in order to maximize the flow of federal dollars. After they receive federal aid, the states consume it themselves or pass it down to local governments on the basis of various allocation procedures.

Under project (or "discretionary") grants, federal agencies distribute thousands of individual grants on a competitive basis after an expert review of proposals. (At least that is how it is supposed to work). Project grants generally require grantees to submit detailed work plans, regular reports, and other paperwork regarding their use of federal dollars.

One form of "discretionary" aid is earmarking. That occurs when the grant process is hijacked by individual members of Congress seeking to divert funds to particular projects in their districts. Thus, while a federal agency might normally distribute cancer research grants on the basis of an expert review of proposals, politicians can end-run around the agency and directly target funds to health facilities in their districts. Note that the federal contracting process also gets hijacked by congressional earmarking.

Earmarking has exploded in recent years, and numerous congressional scandals have stemmed from the practice. The number of earmarks in federal spending bills increased from fewer than 2,000 per year in the mid-1990s to more than 15,000 per year recently.[60]

This report focuses on aid to state governments, but the federal government also has hundreds of programs that directly provide subsidies to businesses, nonprofit groups, and individuals. A complete list of federal aid programs is the 2,437-page *Catalog of Federal Domestic Assistance*.[61] It provides an official listing of all federal programs that dispense grants, loans, insurance, scholarships, and other types of cash and noncash benefits.[62]

Aid programs for the states are a subset of all federal subsidy programs. In 2006 the *CFDA* listed 1,696 federal subsidy programs, of which 814 were for state and local governments, as noted. The number of aid programs for the states has followed the same general trends over time as the total number of programs in the *CFDA*. The number of programs was fairly flat during the 1970s, was cut in the early 1980s, and then rose rapidly during the early 1990s. Since 2000 the number of subsidy programs listed in the *CFDA* has soared, rising from 1,425 in 2000 to 1,696 by 2006.[63]

Politics Creates Complexity

Despite general agreement among experts that block grants are superior to narrow categorical grants, only about 20 of the more than 800 state aid programs are block grants.[64] The reason is that "beneficiaries of categorical programs [have] actively opposed grant consolidation as a threat to their established interests, reinforced by protective credit-claiming program sponsors in Congress," noted aid expert Tim Conlan referring to Nixon's block grant efforts.[65] The GAO similarly concluded:

> The categorical approach to federal assistance has come under increasing criticism in recent years. It has been characterized as unwieldy and, on a cost-benefit basis, unproductive . . . [however,] our political system tends to favor categorical grant programs because they are easier to track and legislation addressing a specific need holds far more political appeal than broader purpose block grant programs. Any effort to incorporate categorical programs into a broader purpose program is interpreted as an attack on the congressional committees who created the programs, the agencies who administer them, and the clientele groups who prosper.[66]

Thus, the federal aid system is not about financing and operating programs in the most efficient manner; it is about politics. Categorical grants are more politically appealing because members of Congress can use them to champion narrow causes and win interest group support. Politicians, special interests, and aid recipients resist conversion of programs to block grants because that would reduce their control and make programs easier to cut. One can debate whether or not federal aid is a good idea in theory, but in practice the political system has locked the nation into the most complex and inefficient form of aid: categorical aid.

That said, both block and categorical grants involve top-down control of state and local activities from Washington. Both types of grant lead to the creation of large bureaucracies. Still, converting categorical grants to block grants would represent progress because it would make federal costs more controllable and aid spending easier to cut. A good first step toward restraining Medicaid's explosive spending growth, for example, would be to convert it to a block grant.

On the other hand, if reform efforts focus only on converting existing grants to block grants, it might only result in short-lived victories. Scholars have observed that in the years after block grants were established in the 1970s and 1980s, their relative simplicity subsequently unraveled as complex regulations began to creep back into programs. At the same time, new categorical grants were created to fill the demands of narrow interest groups that felt shortchanged under new block grants. The GAO reported that the Reagan block grants were changed 58 times in subsequent years as Congress reinstated more rules and regulations.[67]

The unraveling of block grant reforms over time is akin to the unraveling of major tax code reforms. The Tax Reform Act of 1986 eliminated some narrow loopholes in the tax code while reducing overall tax rates and was hailed by proponents as a step toward a simpler tax code. Others note that the act added much new complexity to the code. But all would agree that, after 1986, many narrow incentives and credits were added to the tax code, and it is more complex today than ever. Thus, it seems that democratic political pressures create increasing complexity on both the tax and spending sides of the federal budget over time.

To sum up, today's federal aid structure is massive and complex. Experts have complained about high administrative costs, complexity, and program overlaps for decades. The three layers of government in the United States now resemble, not the tidy layer cake that existed in the 19th century, but a jumbled marble cake. Federal expansion into policy areas traditionally reserved to the states has proven to be a wasteful and bureaucratic way of governing the nation.

Even those who believe in aid on a theoretical basis have been humbled by the inability of governments over many decades to make the system work efficiently. There are too many politicians, too many different interests, and too many layers of bureaucracy for programs to be designed rationally. The GAO has noted that the "sheer number of actors creates immense coordination problems" and that "the high costs appear inevitable" under such a large aid system.[68]

Another problem is that aid programs generally work poorly, partly because Congress provides nowhere near enough oversight. The ACIR noted that "once a grant is designed and operating, Congress has a key oversight role [but it] is far more interested in, and believes it gets much more payoff from, working on new legislation than monitoring the results of law already on the books."[69] The Bush administration has performed detailed reviews of 257 federal aid programs and found that 109 of them are "ineffective" or could not "demonstrate results."[70] Yet Congress has shown little interest in cutting or terminating those programs.

A serious side effect of the aid system that needs more attention is the "overload" that it has created on federal policymakers. As the system has expanded, it has stretched thinner their ability to focus on crucial issues of national importance such as terrorism. Members of Congress spend much of their time trying to

The federal aid system is not about financing and operating programs in the most efficient manner; it is about politics.

secure spending for favored state and local activities and tweaking the regulations attached to aid programs. The president of the United States is the commander in chief of the U.S. military, but even he could be mistaken for the head of a local school board at times.

A number of investigations have revealed that most members of the House and Senate intelligence committees don't bother, or don't have time, to read crucial intelligence reports.[71] A reporter recently asked long-time members of the congressional intelligence committees basic questions about the war in Iraq and Islamic terrorism, and their answers revealed severe ignorance.[72] It is hard to quantify the extent to which the burgeoning aid system has led policymakers to ignore national problems, such as the rise in the terrorism threat prior to 9/11, but it is a critical concern that can be addressed by downsizing the federal aid system.

Federal Aid and Activist Politicians

There are few activities that the federal government performs that are not also priorities of individuals, businesses, and state and local governments. One can call education a "national" priority, but that does not mean that the federal government has to get involved.

Over the decades, policymakers have argued that various state, local, and private activities needed federal intervention because they had become "national priorities." A leader on aid issues in the 1960s, Sen. Edmund Muskie (D-ME) stated, "The national government is best placed to have a broad view of national interest, to identify national priorities and to see to it that they are met . . . [thus it] distributes and administers funds in the form of categorical grant programs."[73]

More recently, a fact sheet from current Secretary of Education Margaret Spellings begins: "The responsibility for K-12 education rests with the states under the Constitution. There is also a compelling national interest in the quality of the nation's public schools. Therefore, the federal government . . . provides assistance to the states and schools in an effort to supplement, not supplant, state support."[74]

The flaw in logic here is that there are few activities that the federal government performs that are not also priorities of individuals, businesses, and state and local governments. One can call education a "national" priority, but that does not mean that the federal government has to get involved. That's because education is also a high priority of local governments and families. Local governments are free to learn schooling techniques from each other, but there is no compelling reason for top-down control from Washington.

President Ronald Reagan made the following observation in a 1987 executive order on federalism:

> It is important to recognize the distinction between problems of national scope (which may justify federal action) and problems that are merely common to the states (which will not justify federal action because individual states, acting individually or together, can effectively deal with them).[75]

A portion of Reagan's executive order is included in the Appendix. The confusion between problems that are truly national in scope and those that are merely common to the states even extends to homeland security. When you look at the details of federal aid to the states for homeland security, you find that much is going toward items that would be better funded locally, such as bulletproof vests and radio systems for first responders. When this sort of local spending is federalized, members of Congress play a game of tug of war over funding for their states and ignore the value taxpayers receive for their money. If, instead, funding and spending decisions are made together at the state or local level, cost and benefit tradeoffs will better reflect the preferences of citizens within each jurisdiction.

National and Local Interests

The idea that aid to the states can be designed in the "national interest" is a theory that doesn't match political reality. The concern of members of Congress for their states and districts almost always trumps any other policy considerations. Members may convince themselves that spending on aid projects in their hometowns is good for the country, but that is only because the resulting tax burdens are spread over the rest of the nation and invisible to them. For a senator from Alaska, spending on a bridge in that state is always more important than is the project's impact on federal taxes or the deficit. Even presidents, who are elected with national mandates, often favor spending that targets narrow interests because the spending beneficiaries are more visible than the taxpayers who will bear the costs.

Proponents of aid have held that it is in the national interest to design programs that support activities in regions of the country that have the greatest needs. But in practice, the aid system has never operated in that fashion. A 1940 article in *Congressional Quarterly* lamented that "the grants-in-aid system in the United States has developed in a haphazard fashion. Particular services have been singled out for subsidy at the behest of pressure groups, and little attention has been given to national and state interests as a whole."[76] Forty years later, the ACIR concluded essentially the same thing:

> Regarding *national purpose*, the record indicates that federal grant-in-aid programs have never reflected any consistent or coherent interpretation of national needs. . . . Regarding *fiscal equity*, the record indicates that federal aid programs have never consistently transferred income to the poorest jurisdictions or individuals.[77]

The "Robin Hood" principle, the ACIR observed, "has always received much more lip service than actual use in aid distribution."[78] The GAO looked at that issue in 1996, examining whether aid was directed to the states that had "greater programmatic needs and fewer fiscal resources."[79] It found that "federal aid is not targeted to offset these fiscal imbalances."[80]

More recently, a study by Robert Helms of the American Enterprise Institute found that those states with higher poverty rates received less federal Medicaid funding on a per capita basis than other states.[81] Also, a recent study by Education Trust came to similar conclusions about federal aid for public schools. *The Washington Post* summarized the findings:

> A $13 billion federal program to help students from low-income families has actually widened an education funding gap between rich and poor states. . . . The program, known as Title 1, is part of a slew of federal, state, and local policies that direct more resources to the nation's wealthiest children than to its poorest, the study concluded.[82]

Whether or not one agrees with the idea that the federal government ought to transfer resources from rich states to poor states, the evidence shows that the federal aid system does not accomplish that goal. This is important because the belief that the federal government can and should help poor regions of the country has underpinned support for the federal aid system from the beginning.

In the operation of the aid system, political and parochial concerns are far more important than theoretical concerns about national priorities or helping those in need. The aid system is a $449 billion playground on which members of Congress target subsidies to their states. The problem is not that members aren't patriots; it is that they are also activists and—like most people—they have emotional and community ties to their hometowns. Indeed, members usually have strong ties to businesses and nonprofit groups in their states because many were former state and local legislators.

Of course, even before the modern grants-in-aid system, federal politicians championed spending activities that benefited their home states. Legislators with navy bases in their states have always supported navy spending, for example. But the expansion of the aid system in recent decades has enormously magnified the age-old regional battles in Congress.

Interestingly, the rise in aid in the 1960s coincided with the rise of computers, which became a tool that politicians used to fine-

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tune their parochial spending advocacy. By the early 1970s, budget experts were discussing how Congress had descended into "politics by printout."[83] At the time, proposed legislation for aid programs would be run through mainframe computers at the Department of the Treasury, and printouts would be delivered to Capitol Hill so that members could see whether their districts gained or lost from any changes.[84]

The recent explosion in the earmarking of federal aid and procurement has taken geographic political competition one step further.[85] As noted, the number of earmarks in federal legislation rose from fewer than 2,000 annually in the mid-1990s to more than 15,000 by 2005.[86] Some earmarking misallocates resources for properly federal activities such as defense. Last year's defense bill included 3,000 earmarks.[87] But most earmarking is for federal spending on what are properly state, local, and private activities.

By opening the floodgates to earmarking, Congress has encouraged a stampede of local interests to beat a path to Capitol Hill. Local governments and local organizations are increasingly making end-runs around state officials and going straight to Congress whenever they need a new parking lot, museum, or airport terminal.[88] A recent *Wall Street Journal* story described how lobbying by local groups in Washington is undermining the ability of state officials to make coherent plans for state infrastructure such as highways. A major highway bill enacted in 2005 included 6,371 earmarks.

Earmarking is also tied to recent corruption scandals. Disgraced lobbyist Jack Abramoff famously called the appropriations committees in Congress "favor factories." Indeed, they are. Politicians trade earmarks for campaign assistance, trips, sweetheart business deals, and general political support. Total fees paid to registered lobbyists in Washington increased from $100 million in 1975 to $2.5 billion in 2006, with a substantial share of those fees related to earmark lobbying.[89]

Recent scandals have shown that federal politicians can't keep their hands out of the cookie jar, but the fundamental problem is that the federal cookie jar has grown so large. With 814 state aid programs and 1,696 federal subsidy programs overall, it is not surprising that the number of earmarks has soared because each program is a delivery vehicle for favors to home-state interests. The earmarking explosion was a scandal waiting to happen.

Parochial politics feeds on itself and has created a dynamic response from the states. The more aid programs and more earmarking there are, the more active state and local officials and interest groups in Washington become. Highway contractors, school teachers, and policemen have learned that the payoff from the one-stop subsidy shop in Washington is higher than the payoff from lobbying each state separately. A century ago, the agricultural, education, and highway industries were the first to discover the efficiency of lobbying for subsidies in Washington, and thousands of other local interests have since joined them in the nation's capital.

The same dynamics are in play regarding federal regulations. A special interest group that wants to get a law imposed in all 50 states can go straight to Congress and attach a regulation to an aid program, rather than fight separate battles in each state. A classic example was the national drinking age law championed by Mothers Against Drunk Driving. The group had existed for just four years in 1984 when it managed to get Congress to impose a drinking age of 21 on the states by tying the regulation to a federal highway aid bill.

Earmarks represent just a part of the regional skirmishing in Congress over federal aid. The formulas used for distributing aid are a bigger battleground. Consider the ongoing fights over the formulas used to distribute homeland security aid. Members from states with low risks of terrorism, such as Sens. Ted Stevens (R-AK) and Susan Collins (R-ME), have pushed hard to distribute grants on the basis of metrics that favor their rural and less populated states but are not related to risk.[90] As a result of such efforts, homeland security aid has often gone to regions that don't need it in order to buy expensive items that are little used.[91]

Members of Congress also battle over the formulas used for health care grants. A recent *Washington Post* story profiled Sen. Hillary Clinton's (D-NY) fight to tweak the formula that distributes federal grants for HIV/AIDs so that a little more flows to New York.[92] By engaging in such a fight, Clinton is signaling to her constituents that she is a champion of their interests. The efficiency of programs and their positive or negative effects are not politically important. It is the spending that generates the favorable media coverage.

Parochial Obsessions

Evidence that federal legislators are obsessed with parochial interests, not broad national interests, can be found on their official websites. The purpose of many, perhaps most, congressional press releases is to tout the securing of federal benefits for home-state activities. The following are a few recent releases:

- House Speaker Nancy Pelosi (D-CA): "Pelosi Announces Grant for Hybrid Fuel Cell Bus," regarding a $5 million grant for a San Francisco bus system.[93]
- House Majority Leader Steny Hoyer (D-MD): "Hoyer Announces Federal Funding for Hollywood Volunteer Fire Department," regarding a $100,000 grant to a Maryland fire department.[94]
- House Minority Leader John Boehner (R-OH): "Boehner Congratulates Edison Community College on Job Training Grant," regarding a $2 million grant.[95]
- House Minority Whip Roy Blunt (R-MO): "Congressman Blunt Announces Humanities Grant for Drury University Professor," regarding a $40,000 grant for a professor to study "American Romanticism and the Civil War."[96]
- Senate Majority Whip Richard Durbin (D-Ill): "Durbin, Manzullo Announce SBA Disaster Assistance for Rockford Flood Victims," regarding Small Business Administration loans to homeowners affected by a minor flood in Illinois.[97]
- Senate Minority Whip Trent Lott (R-MS): "Senator Lott Announces $3 million for Mississippi Fire Departments," regarding Department of Homeland Security grants for 23 fire departments in the senator's state.[98]

Note that many such press releases do not involve earmarks; instead they tout routine federal grant awards for which the members are simply trying to take credit. Either way, it seems perverse that the nation's top leaders in Congress focus on such obscure local concerns when there are so many serious national problems to deal with, such as the entitlement spending crisis.

Sadly, the scramble of the 535 legislators on Capitol Hill to grab a slice of the federal subsidy pie is an all-consuming activity. Members and staffers insert spending projects into appropriations bills and tweak grant formulas to steer aid to their regions. Every member's Washington and home-state offices have specialists in "grants work" and "constituent services" to help residents gain federal benefits. House and Senate offices hire about as many employees to handle constituent services and grants work as they do to handle legislative activities.[99]

Member websites have areas devoted to helping constituents find federal funding.[100] The website of Rep. Adam Smith (D-WA) offers to come to the rescue of those seeking funding, noting that "working with the federal government to many people can be a virtual maze of red tape and impossible bureaucratic regulations."[101] Congressional offices help write grant proposals for constituents, they sponsor seminars on securing funding, and they write letters to federal agencies in support of constituent requests.

The Congressional Research Service instructs congressional offices to be proactive in finding out who in the state or district has applied for federal aid.[102] Offices should contact these applicants and provide support so that when the federal money comes through, the member of Congress can claim credit. Apparently, federal agencies usually contact congressional offices before announcing grant awards in order to

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allow members "an opportunity to notify recipients of grants."[103] The purpose of all this, of course, is to create the mirage that grants are gifts from politicians, not taxpayers.

Congressional offices create for constituents newsletters about federal funding opportunities. The House of Representatives publishes a weekly "Federal Funding Report" regarding aid opportunities and runs a website called "Federal Funds Express."[104] In sum, members of Congress run full-service shops to keep the subsidies flowing to their districts. Most members claim to be friends of the taxpayer, but in reality their main goal is to feed the "tax eaters," the consumers of federal aid.

Federal aid is used as a political tool, not just by Congress, but by the executive branch as well. Leading up to the 2004 elections, the Bush administration sent cabinet secretaries around the country to key states and congressional districts to hand out grant funding.[105] The energy secretary flew to swing states such as Florida and Pennsylvania handing out $100 million for coal mining here and $235 million for a power plant there. Other administration executives handed out grants for job training, education, and community development.

Leading up to the 2006 elections, Bush cabinet secretaries were at it again—flying from state to state distributing grant money to the districts of Republicans in tight races. In October, Secretary of Education Margaret Spellings flew to Pennsylvania to deliver a $6.3 million grant and then to Ohio to deliver a $20 million grant.[106] Secretary of Labor Elaine Chao went to Pennsylvania to hand out a $10.4 million grant, and Secretary of Agriculture Michael Johanns dispensed grants as well.

Busybodies and Philanthropists

Those sorts of activities come naturally to most politicians, who are by nature activists and busybodies. They are in constant need of spending activities in order to provide bullet points for their speeches, fodder for their press releases, and a focus for their campaigns. The large array of aid programs provides a rich menu of items for politicians to champion in order to signal that they are helping people.

By promoting a range of aid programs, members of Congress can pretend to be doing something about lagging education, highway congestion, and many other problems. Capitol Hill is full of "entrepreneurs" who gain loyal constituencies by targeting them with streams of aid. An ACIR analysis looked at the factors that caused the growth in federal aid.[107] They found that "entrepreneurship" by individual politicians was the main cause of the creation of new programs. Once programs are in place, both politicians and lobbyists are quick to defend them and push for expansions.

Aid to the states has a number of political advantages over direct federal spending on an activity. One is that if it becomes clear that an aid program doesn't work, federal politicians can blame poor state and local administration. Another is that federal politicians can induce more spending on an activity by requiring states to match federal funding amounts. That allows them to claim credit for the overall program but be responsible for only part of the resulting tax burden.

Spending on aid programs rewards the egos of politicians. They get lauded for their noble public service, get toasted at gala dinners, and get buildings and highways named in their honor. They enjoy being "philanthropists." Most legislators become advocates of programs rather than neutral referees who judge the merits of programs against the costs to taxpayers. If you look at congressional websites, you find that many members boast of the awards they have won for their support of subsidy programs.

Sen. Patty Murray's (D-WA) website proudly lists 81 different awards for her pro-spending efforts.[108] Awards include "Friend of the Farm Bureau," the "Golden Spike Award" from Amtrak, and the "Lifetime Leadership for Quality Childcare Award." She boasts of awards for "tireless support of Asian Pacific elders," "leadership in building communities that thrive," "improving the quality of child care," and "support of children and families in the nation."

Despite what many politicians think, however, championing special interest spending is not a guarantee of electoral success. Former senator Mike DeWine was a big spending Republican from Ohio, who called himself "bodyguard of the poor" while championing many federal aid programs. His Senate website boasted a remarkable list of 44 "humanitarian" and "public service" awards from various special interest groups.[109] DeWine was soundly defeated for reelection in 2006.

Like former senator DeWine, most politicians are natural activists, and they believe it is always safe to play the spending game and appease as many special interests as possible. That political strategy makes it easy to raise campaign money and generate flattering media coverage, but it doesn't necessarily sell with voters. An alternative strategy is to be a maverick spending cutter, as is Sen. Tom Coburn (R-OK). Coburn has shown that this approach can be very successful, but it is much harder work, and most legislators don't have a taste for making enemies of powerful interest groups.

Most members of Congress use the DeWine strategy, not the Coburn strategy. One reason is that pro-spending positions usually get favorable and uncritical coverage in the media. In 2006 the Bush administration tried to trim federal grants to local police forces. That prompted members of both parties on Capitol Hill to jump to the defense of the grants and squash the proposal. A *Washington Post* story was headlined "Lawmakers Criticize Budget Cuts for Police."[110] The story said that the Bush proposal would "slash assistance" and create "deep cuts" to "popular" programs for local police forces. The story noted that "the International Association of Chiefs of Police and other police groups lobbied Congress to restore the cuts."

Sometimes such stories are not overtly biased, but they rarely ask fundamental questions. Nowhere in this story was the propriety of those public servants lobbying for self-serving subsidies questioned. And nowhere was there any questioning of why the federal government ought to be funding local police at all. Subtle cues in the story suggested that spending cuts are bad—programs that are slated for trimming are frequently called "popular" by the *Washington Post*.

Politicians don't just jump to the defense of aid programs; they often try to cow anyone who proposes restraint. When new allotments of aid for homeland security were awarded in 2006, some states did better than others compared to prior years. The states that did worse raised a stink and tried to reverse the allocations. Rep. Peter King (R-NY), an important appropriator, said:

> As far as I'm concerned, the Department of Homeland Security and the administration have declared war on New York. . . . It's a knife in the back of New York, and I'm going to do everything I can to make them very sorry they made their decision.[111]

When it comes to aid for their states, politicians don't take no for an answer. If federal agencies try to be frugal with taxpayer funds, or allocate aid with the national interest in mind, politicians do their best to stomp out such behavior. Threats like King's ensure that agency bureaucrats concerned about their careers go along with the wasteful ways of Congress.

The inability to accept no was revealed after a minor flood in 2006 that damaged 200 homes in wealthy Fairfax County, Virginia.[112] The Federal Emergency Management Agency made the decision to deny federal flood aid to the county, saying that homeowners did not suffer enough damage to warrant it. That prompted Virginia's senators and local House members to lobby the secretary of homeland security, Michael Chertoff, to reverse the decision. Unfortunately, the huge flow of federal subsidies to the states has created a situation in which the attention of top officials like Chertoff is being constantly diverted to deal with trivial local matters.

Most legislators become advocates of programs rather than neutral referees who judge the merits of programs against the costs to taxpayers.

The States: America's Biggest Lobby

State and local policymakers enjoy spending just as much as federal policymakers do. It is an easy political decision for governors to cheerlead for federal aid spending in their states because taxpayers in other states are paying most of the costs. The Republican governor of Texas, Rick Perry, is considered a conservative, but his official webpage is chock full of press releases touting his handouts of federal subsidies. In the space of a few weeks last summer, the following releases appeared:[113]

- "Perry: Texas Farmers and Ranchers to Share $780 Million in Drought Assistance."
- "Perry: FEMA Agrees to Reimburse Texas at Same Rate as Louisiana for Hurricanes."
- "Gov. Perry Announces $1.6 Million in Grants to Juvenile Offender Accountability Programs."
- "Perry: Homeland Security Grants to Focus on Technology Needs."
- "Gov. Perry: Presidential Disaster Declaration Approved for El Paso."
- "Gov. Perry Announces $38,098 in Victims of Crime Act Funds to El Paso County."
- "Gov. Perry Announces $3.6 Million in Grants to Local Law Enforcement."

The web pages of some other governors reveal a similar pattern of trumpeting the receipt of federal subsidies. Nebraska: "Gov. Heineman Accepts $37.7 Million from USDA for Rural Development Projects."[114] Kansas: "Kansas receives $10 million for substance abuse prevention."[115] Wisconsin: "Doyle, Lawton Announce $56,000 Grant to Expand Kasco Marine in Prescott."[116]

As federal aid has increased, governors have become less like chief executives and more like regional deputies for the federal government.

As federal aid has increased, governors have become less like chief executives and more like regional deputies for the federal government. In their defense, the governors would say that they have no choice because Congress has stripped their powers and controls over just about everything. Indeed, a White House review of federalism in the 1980s argued that the federal government had become "virtually omnipotent," transforming the states from "the hub of political activity and the very source of our political tradition [into] . . . administrative units of the national government."[117]

The ACIR echoed that assessment in a 1993 report. Supreme Court decisions had eviscerated federalism to the extent that it "essentially reduced the status of the states to that of 'interest groups' operating and competing in the national political process."[118]

Since the explosion of federal aid in the 1960s, state and local governments have become major lobbyists in Washington. The new lobbying industry was called "grantsmanship." The ACIR reported in 1967 that "grantsmanship has become a popular new game in Washington."[119] The *Wall Street Journal* published a story in 1966 about the new profession of "grantsman."[120] Grantsmen were the high-paid middlemen who benefited from the maze of President Johnson's new aid programs. The *Journal* described how the areas of the country that received the most aid were those with the largest teams of grantsmen in Washington, not necessarily those that were the most in need.

Many state and local interest groups were organized, or greatly expanded their Washington offices, during the 1960s, including the National Governors Association, the Council of State Governments, and the U.S. Conference of Mayors. By 1967, 13 states and 24 cities and counties had established Washington offices to lobby for aid.[121] Many aid-related trade associations were formed or expanded during this period, such as those representing education interests.

Today there are 88,000 state and local government entities in the United States, including cities, counties, towns, school districts, and special districts.[122] Most receive—and many actively solicit—federal funding. All those governmental units, and their 16 million employees, represent a powerful lobby in support of aid programs and the vast federal welfare state.

As the number of aid programs has grown, state and local officials have put increasing efforts into federal lobbying. For example, it is routine for local groups across the country to organize "fly-ins" to Washington for personal arm-twisting on Capitol Hill. One recent news article profiled fly-ins by officials from California counties.[123] In early 2007, San Joaquin County send 70 local officials to Washington and Stanislaus County sent 17 officials. Such local groups pay Washington lobbying firms to organize their meetings and strategies, and each group comes equipped with a wish list of local projects that they want funded.

Who can blame today's state and local officials for putting so much effort into lobbying? Aid is very competitive, and there are winners and losers in federal fiscal roulette. One analysis looked at the state-by-state distribution of $10 billion in earmarks for 2005 and found that spending ranged from $985 per capita in Alaska to just $3 per capita in Texas.[124] An analysis of overall federal aid to the states for 2004 found large variations between jurisdictions.[125] The recipients of the most aid on a per capita basis were the District of Columbia ($7,445), Alaska ($4,972), and Wyoming ($3,268), while the recipients of the smallest amounts of aid were Nevada ($1,045), Virginia ($1,085), and Florida ($1,158).

Lobbying Strategies

State governments treat federal aid like a gold mine, and they use a multipronged strategy to secure their share of aid nuggets. First, they work with their state delegations in Congress to steer as much spending as possible toward home. Then they create government agencies that track and manage the securing of federal subsidies.

Texas has an Office of State-Federal Relations that decides priorities for the state regarding federal aid funding, provides news from Congress on aid programs, and works with Texas agencies to maximize federal funding.[126] Maryland has a sophisticated grants agency that was created to tackle the "increasing competition with other states" for federal aid.[127] The agency seeks to increase Maryland's "market share" of aid through activities such as "relationship building" with federal aid decisionmakers. The agency publishes a 328-page annual report that examines the state's receipt of federal aid in great detail.

In California, a major performance review of state government under Gov. Arnold Schwarzenegger found that the state "does not receive its fair share of federal grant funds."[128] The report examined the issue in detail and proposed that the state "develop aggressive strategies" for "maximizing" federal aid, including creating a new office to better coordinate aid efforts.[129]

Aside from such in-house grant agencies, many states have created "think tanks" to track the federal budget process and research strategies to increase federal aid. California has the California Institute for Federal Policy Research in Washington, D.C., which operates a sophisticated tracking system for federal legislation.[130] That organization has a corporate board stacked with California politicians, business leaders, and representatives of special interest groups. California also has the Public Policy Institute of California based in San Francisco. This organization provides frequent and detailed reports on California's share of federal aid funding.[131]

The Northeast-Midwest Institute represents a group of 18 states stretching from Vermont to Minnesota. The institute's website says that it publishes the "most detailed analysis of the flow of federal funds to the states, demonstrating the persistent federal disinvestment in Northeastern and Midwestern states."[132] Interestingly, this institute both lobbies for federal aid to its member states and receives federal aid itself. Audits show that the institute receives about $800,000 annually from 12 different federal grant programs.[133]

The Northeast-Midwest Institute's website boasts about its lobbying prowess. It says that the institute helped "protect Amtrak routes in the region," helped "restore funding for summer youth programs for cities that would have lost a large part of their allocation under a new formula," "altered the food stamp program's criteria to take into account higher costs of living in cold climates," "defeated persistent attempts by southern lawmakers to change the match rate for Medicaid and welfare payments to the detriment of the Northeast-Midwest," and "established a dual Community Develop-

State governments treat federal aid like a gold mine, and they use a multipronged strategy to secure their share of aid nuggets.

ment Block Grant (CDBG) funding formula that helps rebuild older communities."[134]

The CDBG program, which funds a range of local development projects, illustrates how technical the battles over aid can be. One item in the formula that distributes CDBG funding to the states is "housing built before 1940." How did this obscure item get into the CDBG formula? The Northeast-Midwest Institute got a member of Congress to insert it into legislation in 1977 in order to tilt aid toward older cities.[135]

In 2006 a fight erupted over this housing factor in the CDBG formula. The Bush administration wanted to change it because "many poor communities have torn down old, blighted housing while affluent communities have rehabbed theirs, giving them a leg up in the distribution of funds."[136] But any proposed change in formulas meets resistance. One news story said that an official in wealthy Oak Park, Illinois, was "shocked" and "stunned" that her city would lose some of its CDBG subsidies under the Bush proposal.[137] No doubt she will fight to block the change.

Federalism has descended into a highly professionalized competitive battle between the states—and against the federal taxpayer.

Every state argues that it gets the short end of the stick from federal aid. The Northeast-Midwest Institute found that Arizona gets an inordinate amount of aid, but an Arizona think tank, ThinkAZ, disputed that finding.[138] Meanwhile, the Public Policy Forum of Southeastern Wisconsin argues that its region is at a "competitive disadvantage" because of a "failure to take full advantage of federal grants."[139]

The leaders of this Wisconsin group, including government officials and corporate executives, are following an aggressive strategy to fix the problem. In its studies on federal aid, the Public Policy Forum makes it sound as if Wisconsin could not possibly grow without Uncle Sam's help. A recent report, "High-Stakes Game of Risk," says that "competitive federal dollars drive economic growth . . . federal funding is a diverse source of capital that fuels discovery and wealth creation."[140] The report urges that local leaders build up their bureaucracies in order to maximize inflows of federal dollars:

> Loosen purse strings. Federal funding does not come cheap. The region needs to raise "start-up" money to build organizational capacity (e.g. professional grant writers), fiscal capacity (e.g. matching funds to draw down federal dollars), and infrastructure (e.g. research lab space).[141]

The report goes on to flesh out that "capacity building" strategy. It says that Wisconsin organizations should hire grant experts, travel to Washington two to four times per year, and phone federal agencies weekly. They should also raise private grant money to hire the experts needed to "leverage" even bigger federal grants. Here is a success story touted by the report:

> The Private Industry Council of Milwaukee County received a $50,000 grant from a local private foundation to hire a professional grant writer to assemble a competitive grant application for a job training program. This relatively modest downpayment of $50,000 aid paid off with the PIC being awarded a 5-year $27 million grant from the U.S. Department of Labor's Employment and Training Administration.[142]

Clearly, federalism has deteriorated into a highly professionalized competitive battle between the states—and against the federal taxpayer. Taxpayers are also losers when state and local interests join hands and cooperate to lobby together. That is the purpose of groups such as the National Conference of State Legislatures, the National Governors Association, the Council of State Governments, the National League of Cities, the National Association of Counties, and the U.S. Conference of Mayors. Those groups have a major presence in Washington, and their efforts to increase spending on aid programs generate substantial news coverage.

As an example of a recent joint lobbying effort, those groups sent a letter to House appropriators demanding a spending increase for the Emergency Management Performance Grant program. The groups "urge your strong support to provide $220 million for FY 2007 for EMPG."[143] That funding level would represent a 17 percent increase over the prior year's level, yet the groups argue that that is reasonable because there is a "shortfall" in the program.

The aid advocacy industry also includes high-priced lobbyists who are hired by state and local governments. The number of state and local governments that have hired Washington lobbyists has doubled since 1998.[144] One lobbying firm, Alcalde & Fay, has a dedicated "Municipalities Practice Group," which generates $4 million annually in fees. Such firms typically charge their state and local government clients $10,000 to $20,000 per month. Alcalde & Fay boasts that it has "secured billions of dollars in earmarked appropriations and federal grants."[145]

As a result of one scandal in 2006, we learned that the State of Texas was paying $30,000 a month to lobby Congress, with the fees split between a Republican lobby shop (the Federalist Group) and a Democratic lobby shop (Cassidy and Associates).[146] In another scandal, we learned that a top appropriations lobbyist earned $1.7 million in fees one year and that he received a $2 million separation agreement when he went to work for then House Appropriations Committee chairman Jerry Lewis (R-CA).[147] Lobbying for state and local aid funding is big business.

Note the double hit that average taxpayers endure for all this lobbying activity. As state taxpayers, individuals are the ultimate source of the fees paid by the states to the Washington lobbying firms. As federal taxpayers, individuals are burdened to pay for all the extra federal aid spending that the lobbyists secure.

Because the federal budget is a gold mine for the states, it is not surprising that state and local officials invest in high-priced prospectors. Consulting firms, specialized grants software, and trade publications are geared toward helping the states win federal aid. One consulting firm, Management Concepts, offers 20 different courses on aspects of federal grants.[148] The website of another consulting firm, Maximus, describes a range of grant-related services it offers to its state and local clients including "revenue maximization."[149] This firm's sales brochure boasts that it has "identified and secured $1.5 billion in federal funding for states."[150] A search of the Internet turns up dozens of other consulting and software firms eager to help clients win federal aid such as www.freegovmoney.us.

Perhaps the most successful prospector for the states is Gerald Cassidy, cofounder of the Washington lobbying firm Cassidy and Associates. The firm has been the focus of a recent series of articles in the *Washington Post*.[151] Cassidy and his firm pioneered the now-common practice of earmarking money for state and local spending projects in the federal budget. Cassidy's efforts have enabled him to amass a personal fortune of $125 million.

The *Washington Post* series reveals that the expansion of federal spending on state and local activities has not been driven just by activist politicians on Capitol Hill. Entrepreneurial lobbyists, such as Cassidy, have played a key role in advancing the process by pro-actively selling their services to universities and other local institutions across the country. These days, state and local officials know that Washington lobbyists are helping most other jurisdictions secure federal cash, so if they sit on their hands or are squeamish about paying for lobbyists, they will lose out.

The time has long passed when state policymakers would jealously guard the independence of state activities and resist federal encroachment. These days, the priority of the states is to use every means available to squeeze more money from federal taxpayers. State officials have complained about the onerous rules of the No Child Left Behind Act of 2002, and 30 state legislatures passed resolutions attacking NCLB for undermining states' rights. But the states did not call for repeal of the education law, they simply demanded more federal aid money to spend on NCLB implementation.

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Trade Associations and Unions

Working in tandem with state and local

Working in tandem with state and local governments is a huge array of trade associations and unions that push to increase spending on aid programs.

governments is a huge array of trade associations and unions that represent activities dependent on federal aid. While it is illegal to directly use federal aid funds for lobbying, it is easy to get around that rule by forming a nonprofit organization consisting of those individuals and groups that receive aid. There are thousands of such organizations that push to increase spending on aid programs.

Among the most powerful advocates for aid are the unions that represent state and local workers. The largest is the National Education Association, which has 3.2 million members, a staff of 555, and a budget of more than $300 million.[152] The NEA influences federal policy through publications, meetings with legislators, contributions to candidates, conferences, and grants to other groups that favor higher aid spending. NEA's website says that in 1867 it "won its first major legislative victory when it successfully lobbied Congress to establish a federal Department of Education."[153] (The federal agency's title was changed to the Office of Education in 1869.) Like many labor unions, the NEA both lobbies for expanded aid and is an aid recipient itself. The NEA receives federal grants for worker training, substance abuse programs, and other activities.[154]

Associations of state and local government agencies also promote aid spending. Consider the National Association of State Departments of Agriculture. This group, which is composed of state government agriculture officials, was founded in 1915, opened a Washington office in 1968, and has an annual budget of $1.9 million.[155] The group lobbies Congress for more farm aid to the states through meetings on Capitol Hill, letters to top federal officials, and other activities.

Another organization of this type is the National WIC Association.[156] WIC is a federal aid program started in 1974 to provide nutritional food for women, infants, and children. The National WIC Association is an umbrella group for the 2,000 state and local government agencies that administer the WIC program. This association drafts studies on the importance of the WIC program, advocates its positions to federal policymakers, and holds conferences in Washington. The group's 2006 legislative agenda document is entitled "WIC at RISK! A Healthy, Strong America in Jeopardy!" The document "recommends a FY 2007 funding level for WIC of $5.388 billion" and predicts dire consequences if policymakers don't go along.[157]

Another group is the National Association of Housing and Redevelopment Officials. This group's webpage says that "for more than 60 years the National Association of Housing and Redevelopment Officials has fought to secure needed housing and community development programs."[158] NAHRO was founded in 1933 and lobbied successfully to get new federal aid programs enacted under President Franklin Roosevelt. Today it has a $5 million budget and 40 employees in its Washington office.

NAHRO's website says that its members are those who "administer HUD programs such as Public Housing, Section 8, CDBG and HOME." Members include both individuals and the government agencies that they work for. Thus, like other trade associations, that means that NAHRO is ultimately supported by taxpayers as it lobbies for greater federal subsidies, and thus higher taxes. NAHRO is a large and sophisticated group with 43 state chapters, eight regional councils, and 20,000 members. Its 2006 legislative guide is a glossy 16-page document that recommends exactly how much Congress should spend on each related aid program.

In addition to these sorts of groups, there are hundreds, perhaps thousands, of trade associations that represent the private-sector grantees and contractors that depend on federal aid. Considering just highway construction, there are dozens of organizations that lobby for increased federal aid. There are 27 groups in the Transportation Construction Coalition, including the American Concrete Pavement Association, the National Asphalt Paving Association, and the Portland Cement Association.[159]

One member in this coalition is the American Road and Transportation Builders Association. It was founded in 1902 and helped to pass the first major highway aid bill in 1916. It has been pushing for increased highway spending ever since and currently has a Washington office with 36 employees and a $5 million budget.[160] The organization's membership includes state government agencies, highway contractors, and engineering firms. ARTBA's website states its mission clearly:

> From its inception, ARTBA took a very active role in lobbying for the interests of the transportation construction industry. . . . ARTBA helped pass the Federal-Aid Road Act of 1916, which established the first sizeable appropriation of federal funds for road improvements and cemented the federal government's role in transportation development. Since 1916, ARTBA has been a major force in the development of all federal transportation policy and legislation.[161]

In addition to the lobbying groups that focus on aid spending, there are hundreds of groups that focus on aid-related regulations. For example, there are many groups that lobby to attach safety and environmental requirements to federal highway laws. One group is the National Alliance of Highway Beautification Agencies.[162] It appears to be composed of employees of state transportation departments whose mission is to defend the restrictions put on highway billboards passed as part of a 1965 federal highway aid bill.

State Spending Incentives

The basic incentive structure of aid programs encourages both federal and state politicians to increase spending. Federal politicians try to maximize the impact of aid by including provisions that prompt the states to increase their own funding of programs. By inducing the states to spend more, federal policymakers can make programs look more successful and win greater special interest support.

To that end, Congress often includes "matching" provisions in aid programs, which means that the costs of expansion are split between federal and state taxpayers. Under a 50-50 arrangement, for every $2 million spent in total on a program, the federal government chips in $1 million. Matching reduces the "price" to state officials of program expansion and prompts them to demand more spending. If the federal match is open-ended, states can expand programs continually. Two-thirds of federal aid spending is on grant programs that have matching requirements.[163]

That incentive for expansion has been an acute problem in Medicaid. The match for Medicaid varies by state—higher-income states receive a one-to-one match, while poorer states receive up to three dollars of federal aid for each dollar of state funding.[164] On average, the states receive $1.30 in federal funding for every additional dollar they spend on Medicaid from their own funds.

The federal aid match has provided a huge incentive for profligacy in Medicaid. States are encouraged to expand benefits for lower priority activities and to expand eligibility to those with higher incomes.[165] The executive director of the National Governors Association noted that states have expanded the program so much that "approximately 60 percent on average of any given state's Medicaid budget is taken up by optional services and/or optional populations."[166] Medicaid enrollment has increased 40 percent nationwide in just the past five years.[167] Federal spending on Medicaid has grown at an enormous annual average rate of 10 percent since 1990, and rapid growth is expected to continue.[168]

Another spending incentive built into numerous aid programs is maintenance-of-effort (MOE) provisions. Those rules are designed to prevent states from reducing their own support for activities after they receive federal funding for them. If the federal government provides aid for a school reading program, it doesn't want the states to reduce their own funding of reading programs. MOE rules try to ensure that states maintain or increase their own funding of an activity. One effect is that the states have few

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incentives to find lower-cost ways of delivering services because MOE rules bar them from reducing spending.

The precise degree to which aid increases government spending has been the subject of much academic debate.[169] If the states took federal aid money and partly substituted it for their own spending, total government spending would rise by less than the aid amount. That is more likely to occur with block grants, which is one reason why many federal policymakers don't favor block grants. But most of the time, the matching and MOE provisions, the general political incentives for spending, and the lobbying industry surrounding each program all ensure that aid expands government at every level.[170]

If federal aid programs were eliminated, total government spending in the United States would likely decline substantially. Many states would step in and replace a portion of previous federal funding of programs with their own funding. But without federal subsidies, most states would reduce program spending to more reasonable levels. State responses to prior aid cuts support this view. A detailed analysis of the federal aid cuts of the early 1980s indicated that overall spending on the targeted activities fell as the states replaced only a modest portion of prior aid with their own funding.[171] Similarly, a statistical study of federal welfare, which was converted from an open-ended matching program to a block grant in 1996, indicated that the reform substantially reduced state spending compared to what it would have been without reform.[172]

To the extent that federal aid programs draw state funds away from other unsubsidized state activities, they put a wedge between the preferences of state residents and the choices of state policymakers. State policymakers know that if they spend $1 on a state-funded service it buys $1 of that service, but if they spend $1 of their own funds on an activity that comes with a federal match, it will buy $2 of that service. As a result, state policymakers don't provide residents with the optimal mix of services that they really want and are willing to pay for.

This distortionary effect of federal aid has been observed for decades. In 1940 a *Congressional Quarterly* article on federal aid noted:

> Evidence indicates that under the matching system the states tend to spend disproportionate amounts of money on these services, to the detriment of equally important activities which do not receive federal aid. The effect of federal subsidies, therefore, is to give certain public services a preferred position in state budgets.[173]

In the 1980s Ed Koch, then mayor of New York City, complained that federal aid drew cities into expensive commitments for social spending and fancy new infrastructure, while diverting city funds from core responsibilities.[174] And federal aid often funds infrastructure construction costs but not operating costs, thus creating future burdens on taxpayers. If a $100 million grant pays for a new light rail system in a state, it would cost federal taxpayers $100 million, but it may also cost state taxpayers years worth of operating subsidies.

As the federal government has subsidized more state activities over time, it has created an unhealthy political dynamic. Those who support activities that are state funded may feel shortchanged when they compare their situation with those lavished with federal funds. As a result, they will lobby for the establishment of their own federal aid programs. In this way, aid programs beget more aid programs, and more state and local activities are drawn in the federal aid vortex over time.[175]

No Incentives for Cost Control

State and local governments have little incentive to be frugal with aid received from the federal government. As a result, there has always been substantial waste in federal aid programs. Even under the federal land grants of the 19th century, the states were "prodigal" with some engaging in "wildcat speculation."[176]

In recent years, wasteful spending on aid programs has often been in the news. In 2006 the inspector general of the Department of Housing and Urban Development looked at the Community Development Block Grant program and found that fraud by local governments and private grantees was common and increasing.[177]

There have been frequent reports of waste in homeland security aid programs. A 2005 *Washington Post* analysis of $324 million given to the District of Columbia for security found spending on leather jackets for police, summer jobs programs for teenagers, purchases of excess emergency vehicles, and "lucrative consulting contracts for political figures."[178] Similarly, a federal auditor reported that Virginia distributed its homeland security aid sloppily, with spending on such items as cell phones, televisions, and T-shirts.[179]

In March, Reps. Anthony Weiner (D-NY) and Jeff Flake (R-AZ) unveiled a list of wasteful projects funded with federal homeland security grants.[180] The list included such items as security cameras for a fishing village in Alaska, a truck for a local government employee in Indiana to drive to work, a trailer to support lawnmower drag races in Texas, security for a bingo hall in Kentucky, and nutritional counseling for police in Indiana.

The basic problem is that federal aid is "free" money to state and local officials. In a story about federal relief aid after Hurricane Katrina, the *Washington Post* quoted a former top FEMA official observing that "experience shows that local officials spend more freely when they expect the federal government to pay the bills."[181]

The greatest waste in the federal aid system can be found in the largest aid program, Medicaid. Because the federal government pays more than half of Medicaid's costs, the states don't worry too much about the program's rampant fraud and abuse. A 2003 investigation found that fraud in California's Medicaid program costs about $1 billion annually.[182] The *New York Times* reported in 2005 that between 10 and 40 percent of New York State's Medicaid budget of $45 billion may be lost to fraud and abuse.[183] The *Times* story made it clear that the state has little incentive to control those problems, and hires few auditors to do so.

Investigations have revealed large abuses in Medicaid's subsidies for transportation for visits to doctors. The federal government pays 70 percent of those costs. A recent audit found that the District of Columbia spent $16 million for these services in 2005 with virtually no paper trails or completed claim forms.[184] During the year, 8,607 D.C. residents were reimbursed for 427,898 trips, or about 50 trips each. Apparently, some people are using Medicaid transportation as a free taxi service for visiting friends, shopping, and other routine activities.

The states themselves have concocted abusive schemes to rip off federal taxpayers through Medicaid. They create mechanisms to inappropriately boost their federal matching payments.[185] For example, some states instituted "taxes" on health care providers that were rebated back to the providers. The effect was to increase reported state Medicaid spending and boost federal matching aid. States continue to operate such schemes despite a decade of criticism by the federal government.

The wasteful manner in which the states treat federal aid funding is evident in the large cost overruns on federally funded transportation projects.[186] In 1994 Virginia officials claimed that the Springfield interchange project would cost $241 million, but the cost ended up being at least $676 million.[187] The cost of New York's Penn Station redevelopment has more than doubled, and the project is years behind schedule. The GAO found that half of the federally funded highway projects it examined in recent years had cost overruns of more than 25 percent.[188]

The most infamous cost overrun was Boston's "Big Dig" or Central Artery project. In 1985 officials claimed that the Big Dig would cost $2.6 billion and be completed by 1998. The cost ultimately ballooned to $14.6 billion, and the project continues to have engineering problems. The federal share of the cost was $8.5 billion. The state of Massachusetts grossly mismanaged the Big

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Dig.[189] It repeatedly bailed out bungling highway contractors and essentially rewarded them for cost overruns with guaranteed profits.

Nonetheless, the ultimate reaponsibility for wasteful spending of federal aid lies with Congress. Congress can cut aid programs anytime it wants. But it doesn't because its political incentives are upside down—cost overruns on federal projects are positive benefits to members of Congress who have aid activities in their states. For example, cost overruns on the Big Dig meant more federal money flowing to Massachusetts, which was a political benefit to members from the state such as former House Speaker and project champion Tip O'Neill (D-MA).

Members of Congress have little interest in the efficiency of federal spending in their states. Wasteful Medicaid spending in New York means more federal funding for the constituents of New York politicians. More federal aid means more government-funded jobs for hometown voters. In sum, programs funded with federal aid include no incentives for cost control up or down the management chain of government.

Bureaucracies and Regulations

The desire of federal legislators to address countless problems in society has led to the creation of the huge aid system. Policymakers make it sound easy when they declare that a new aid program will help solve a problem, but it is another thing to actually implement a program efficiently and get positive results. Consider President Bush's $150 million aid program, the Healthy Marriage Initiative.[190] It would not be surprising if most of the program's funds are consumed by analysts, lawyers, consultants, and other high-paid bureaucrats. They will create proposals, write studies, litigate, evaluate, and audit, and the average married couple in the heartland will never even hear about the program.

And what if auditors find out that the healthy marriage program doesn't work? It will be a struggle to kill it because it has hooked hundreds of lower governments and nonprofit groups on a lucrative flow of funding. That funding will be vigorously defended by the churches, Indian tribes, community groups, and ethnic organizations that are on the healthy marriage gravy train.[191]

Federal Bureaucracies

At the top of the aid food chain, federal agencies busy themselves awarding grants, calculating grant formulas, writing regulations, evaluating programs, and other tasks. Agencies need to monitor the states to ensure compliance with aid rules, and they need to impose penalties when the rules are broken. Each project grant needs a panel of experts to review proposals and make grant awards. Formula grants require extensive data collection to accumulate the information needed for grant formulas. A GAO summary of federal grant formulas is 422 pages long.[192]

The main goal of federal agencies is to shovel aid out the door as fast as possible. If they don't, they will be hounded by politicians and interest groups. Every federal department holds conferences and runs websites to help recipients get all the aid they can. They publish guidebooks and an endless series of memos to help grantees sort their way through the labyrinth of aid procedures and regulations.[193]

The Department of Agriculture's $30 billion food stamp program provides an illustration of how agencies encourage aid spending. Apparently, only 60 percent of those eligible for food stamps participate. One reason is that the states make applicants jump through a few hoops in order to receive benefits.[194] But the USDA encourages states to lower their screening standards and hand out more subsidies. For example, it recently provided waivers to some states allowing them to sign up food stamp recipients over the telephone and Internet, instead of requiring recipients to appear in person at an office. The USDA also provides bonuses to states that increase their food stamp participation rates.

It is not known exactly how much all these federal rulemaking and administrative tasks cost federal taxpayers. Federal administration costs for the aid system come on top of the $449 billion cost of federal grants themselves. Past estimates of aid administration costs indicate a wide variation between programs.[195]

One way to estimate administration costs is to look at agencies whose main purpose is to distribute aid. Consider the Department of Education, which has no teachers and runs no schools. Its purpose is to oversee 146 education grant programs, which are described in a department guidebook that is 490 pages long.[196] One can look at budget data for particular programs to get an estimate of federal administrative costs. For the Safe and Drug-Free Schools program, administrative costs are about 8 percent of the value of grants handed out.[197] English Language Acquisition grants have a similar 8 percent federal administrative cost. Another program, Safe Schools Healthy Students, distributed $94 million in grants in 2004, while paying a consultant $10 million to evaluate the program.[198]

Here is a sampling of the administrative costs of other federal grant programs:

- The Economic Development Administration distributed $361 million of grants in 2006, while incurring administration costs of $31 million, or 9 percent of the grant value.[199]
- The Institute of Museum and Library Services distributed $238 million of grants in 2006, while incurring administrative costs of $12 million, or 5 percent of the grant value.[200]
- The Appalachian Regional Commission distributed $71 million of grants in 2006, while incurring administrative costs of $5 million, or 7 percent of the grant value.[201]
- The Justice Department's Weed and Seed anti-drug program distributed $50 million of grants in 2006, while incurring administrative costs of $11 million, or 22 percent of the grant value.[202]

This small sample of programs suggests that federal administrative costs account for 5 to 10 percent or more of federal grant amounts. Thus, if federal administrative costs of the $449 billion aid system were 10 percent, that would mean an added $44.9 billion burden on taxpayers, and put the overall costs of the aid system at about $500 billion.

However, federal costs are only a part of overall aid administration costs. Aid flows down to the states and then often through one or two layers of local government. Local governments consume some of the aid funds on in-house bureaucracy and then often disperse the rest to private contractors and grantees. Funding for the largest education aid program, Title I, flows to state governments, then to city and county governments, and finally to school districts and individual schools. A portion of federal community development aid flows to state governments, then down to local governments, and finally out to nonprofit groups and businesses.

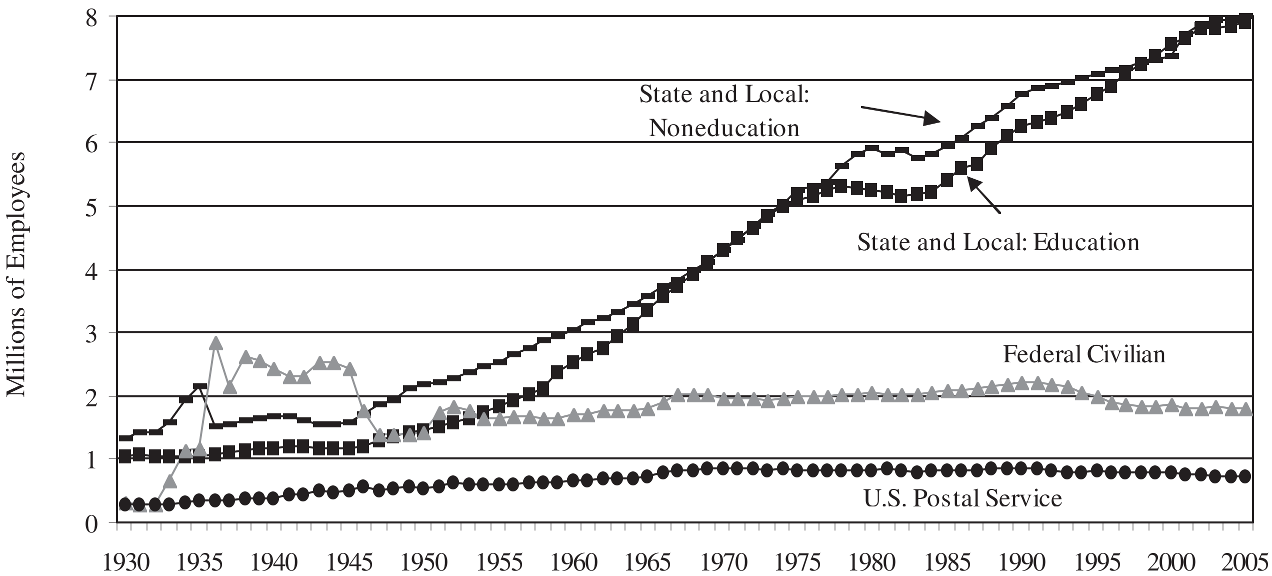
At each level, government agencies and private organizations keep a portion of funding for their administrative costs. Federal rules sometimes specify the share of funding that may be used by recipients for administrative costs, and 10 percent seems to be common. Considering all the administrative costs at all layers of government and private organizations, it would not be surprising if much of the aid budget disappeared before any actual work is done. Of course, separating administration costs from active program costs is a tricky and somewhat ambiguous task. If an aid program doesn't work as planned, then the entire cost of the program is essentially an administrative write-off from a taxpayer's perspective.

State and Local Bureaucracies

Most of the "bureaucracy" in American government is at the state and local level. State and local governments employ 16 million workers, far more than the 1.8 million civilians employed by the federal government. Figure 5 shows that, while the number of federal workers has been roughly constant for decades, the number of state and local workers has soared.

Most of the "bureaucracy" in American government is at the state and local level. State and local governments employ 16 million workers, far more than the 1.8 million civilians employed by the federal government.

Figure 5
Number of Government Employees



Source: U.S. Bureau of Economic Analysis, National Income and Product Accounts, Table 6.5, www.bea.gov/bea/dn/nipaweb/index.

The pattern is substantially explained by the huge growth in federal aid and the need for state and local governments to comply with masses of aid-related regulations.

How many state and local workers owe their jobs to federal aid and related regulations? Given that aid represents 22 percent of state and local budgets, a rough estimate is that 22 percent of state and local workers, or 3.5 million, owe their jobs to aid. Paul Light of the Brookings Institution very roughly estimated that 4.7 million state and local workers handled federal aid and regulations.[203] Either way, it appears that there are many more bureaucrats doing federally sponsored work in state and local governments than in the federal government.

Figure 5 shows that the trends of education and noneducation employment in state and local government have been similar in recent decades. Employment soared during the 1960s and early 1970s, slowed in the early 1980s, and began growing again in the late 1980s. Note that these growth patterns are similar to the patterns of federal aid spending shown in Figures 3 and 4, suggesting that aid is an important cause of the growth in state and local bureaucracies.

As aid expanded in the 1960s, huge numbers of state and local workers were needed to administer the new programs and to comply with aid-related regulations. State and local governments boosted staffing in order to write grant proposals, implement programs, draft progress reports for federal agencies, track the federal budget, and many other tasks. The share of state agencies in the 50 states that receives some federal subsidies increased from 34 percent in 1964, to 63 percent by 1974, and to 79 percent by 2004.[204]

The expansion of state bureaucracies in the 1960s was not an unforeseen side effect of rising federal aid; it was an intended purpose of aid—aid was "an intentionally stimulative instrument."[205] Experts thought that state and local governments should be "modernized," meaning that they needed large new bureaus of administrators. In a 1966 speech, top White House official Harold Seidman lamented that state and local governments were poorly suited to the "complex conditions or modern life."[206] To his way of thinking, they had backwards structures such as biennial legislative sessions and part-time legislators. Seidman argued that the federal government "should do more to support efforts to enhance the quality of state and local administration."[207] The states should become better "partners" by hiring more staff, creating "comprehensive plans," and establishing new agencies to receive federal aid.

Seidman recognized that the expansion of federal aid was creating problems. He said that aid programs had become a "jungle" of inconsistency, overlap, and duplication. But his solutions were characteristic of the 1960s—the jungle should be tamed by more experts, more planning, and more government structures.

The growth in federal aid spurred the creation of new agencies in state and local governments, including agencies for urban renewal, public housing, and anti-poverty efforts.[208] New agencies were needed to draft grand plans describing how states would spend federal aid funds. For example, a 1968 crime bill mandated that to receive aid governors must create new state planning offices.

Aid programs sometimes cut across the jurisdictions of existing state and local agencies, so new government structures had to be created. And states often needed to change laws to give agencies the added powers they needed to comply with aid regulations.[209] One study found that there were 51 different types of agency common to state governments in the 1950s, but today states usually have more than 100 different types of agencies to carry out a much broader array of activities.[210]

There continues to be federal and state pressure on state agencies to beef up their aid bureaucracies. A 2003 report by the California state auditor argues that state agency staffing should be increased in order to maximize inflows of federal aid.[211] The auditor found that agencies needed more staff to apply for grants and to create the planning documents needed to be eligible for aid.[212] For example, local governments needed to create "continuum of care plans" to be eligible for federal homeless persons grants.[213] Federal agencies have lobbied California to increase agency staffing in order to meet federal requirements.

The expansion of aid over the decades has led to the creation of new layers of government in the United States. Thousands of water authorities, public housing authorities, conservation districts, air quality regions, and other structures were created partly in response to the expansion of federal aid.[214] Such structures were created to receive federal aid and to operate independent of city and county governments. The number of such special district government units increased from 12,000 in 1952, to 24,000 in 1972, and to 35,000 by 2002.[215]

The proliferation of state and local agencies and special districts has undermined the ability of state and local officials to manage government finances. Officials can't reallocate funds to improve government efficiency because the mass of federal rules and funding sources has balkanized their operations. At the same time, officials have fewer incentives to pursue state and local cost savings these days because budget needs can be met by securing additional funding from Washington.

The rise in aid has produced disjointed and uncoordinated government actions. The GAO argues, for example, that the array of 16 separate aid programs for first responders has created fragmented disaster response planning.[216] With many state agencies being supported by aid, communication channels have become vertical to the federal government rather than horizontal across state and local agencies. Federal aid disenfranchises state and local elected officials because they are bypassed by federal funds that flow to state and local agencies.[217]

Federal aid funds 29 percent of state budgets, and federal and state aid together funds 44 percent of local budgets.[218] That means that large parts of state and local budgets are beyond the direct control of the corresponding elected officials. Aid denies state and local leaders the ability to make tradeoffs regarding the costs and benefits of government services. At the same time, aid suppresses government

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President Bush's initiative to give subsidies to faith-based organizations is similarly focused on building up bureaucracies. He argues that his subsidies are building an "Army of Compassion," but they are also building an army of lobbyists that will push for higher federal aid spending.

accountability. When every level of government is responsible for a program, experience indicates that no level of government takes responsibility when failures occur.

Private Bureaucracies

The federal aid system also causes bureaucratic growth in private organizations that receive funding. Federal money trickles down through state governments, then local governments, and finally to private businesses and nonprofit groups. These private organizations deal with a mass of aid-related paperwork—grant proposals, regulatory compliance, performance reporting, auditing, and other activities.

The federal government encourages the building of state, local, and private bureaucracies through the funding of "capacity building." There are entire grant programs devoted to capacity building for environmental groups, foreign aid contractors, Indian tribes, and other sorts of aid recipients.[219]

Consider a 2005 press release from the Department of Housing and Urban Development: "HUD Awards Nearly $24 million for Affordable Housing and Economic Development."[220] Looking at the details, it is clear that most of those HUD grants went toward hiring administrators and not actually building any housing. An Indian tribe in Alaska received $150,000 to "create a management position for the department. Activities include reviewing internal policies and procedures, and with the assistance of The McDowell Group, developing a strategic plan." A Daytona Beach housing agency received $150,000 "to provide staff training, economic development and strategic planning as well as coalition building."

President Bush's initiative to give subsidies to faith-based organizations is similarly focused on building up bureaucracies. A centerpiece of the initiative is the Compassion Capital Fund, which funds "intermediary organizations that provide capacity-building assistance to faith-based and community organizations. Intermediary organizations serve as a bridge between the federal government and faith-based and community organizations."[221] Thus far, the CCF has funded 44 such middleman groups.[222] One is the Ohio Compassion Capital Project administered by the Governor's Office of Faith-Based and Community Initiatives in that state. Another is JVA Consulting LLC of Denver, which has received more than $2 million to hold workshops for community organizations to help build their "organizational capacity."[223]

All in all, the president's initiative has hooked 4,300 "faith-based and community organizations" on the federal dole.[224] In a recent award of $58 million to 442 groups, taxpayer dollars were sent to such organizations as the Bach Viet Association, the East Bay Spanish Speaking Citizens Association, the Muslim American Society Boston, the Utah Federation for Youth, and United Way Silicon Valley.[225] President Bush argues that his subsidies are building an "Army of Compassion," but they are also building an army of lobbyists that will push for higher federal aid spending.

The Burden of Federal Regulations

A primary activity of state and local workers is dealing with the mass of aid-related regulations imposed by the federal government. There are three types of aid regulations.[226] The first are the specific rules for each program, such as the rules for disabled access that come with transit aid. Each program may come with hundreds or thousands of pages of rules for grantees to follow. The regulations for the $11 billion Individuals with Disabilities Education program are 1,700 pages long.[227] The $61 million Weed and Seed anti-drug grant program has a 74-page application kit that references 1,300 pages of regulations.[228] The Byrne aid program operated by the Department of Justice has a 58-page application kit that references 1,000 pages of regulations.

One can get a sense of how complex the rules for each aid program are by examining the websites of federal, state, and local agencies that administer the programs. For Community Development Block Grants, state and local agencies publish many lengthy guidebooks and planning documents, and they evaluate thousands of funding proposals by grantees. The State of Virginia's CDBG manual is 170 pages long.[229] The forms and guidance for CBDG grantees in Virginia are 132 pages long.[230]

"Crosscutting requirements" are a second type of regulation that come with federal aid. These are general provisions that apply across many aid programs, such as employment and labor market rules. Davis-Bacon requirements that set minimum wages on federal projects are a good example. There are dozens of crosscutting regulations on federal aid that grantees must comply with.

"Crossover sanctions" are a third type of aid regulation. Under these rules, cuts to federal aid are imposed if certain federal regulatory requirements are not met. For example, under a 1965 law the federal government threatened to cut highway aid to those states that did not follow new guidelines on billboard advertising. The federal government made a similar threat to those states that did not impose a 55-mile-per-hour speed limit under a 1974 law. (The national speed limit was repealed in 1995.)

The growth in aid-related regulations has been very good for the legal industry. Grant law became a hot area in the 1970s as a result of the explosion in grant litigation.[231] As is tax law, grant law is complex partly because lobbyists work to carve out narrow benefits and exceptions to the rules. Also, judicial developments in the 1970s opened the floodgates to court activity related to aid. There was an increase in third-party challenges to crosscutting aid regulations, such as those related to discrimination and environmental rules. There have also been many legal disputes between grantees and federal agencies. Consider, for example, that the National Head Start Association, which defends the Head Start aid program, has its own Legal Advisory Service.[232] The service exists to provide legal training and legal guidance for the recipients of Head Start subsidies.

The high costs and intrusiveness of aid-related regulations have caused great concern. The states have occasionally challenged the federal government over particularly onerous regulations, but a 1923 Supreme Court case established that aid-related rules are constitutional because state participation in aid programs is voluntary.[233] More recently, a 1984 highway law threatened to cut aid to those states that did not raise their drinking ages to 21. South Dakota challenged the regulation, but a 1987 Supreme Court decision sided with the federal government and approved the law—notwithstanding that the 21st Amendment to the Constitution gave the states the power to regulate alcohol.[234]

Aid-related rules have been found to be constitutional, but there is no doubt that they are very costly. For example, state officials have long complained about the cost of rules tied to education aid. A former education official in Arizona noted that 45 percent of the state's employees dealt with federal aid programs, but that those programs accounted for just 6 percent of state education spending.[235] A Florida education official similarly complained about

> the crushing burden caused by too many federal regulations, procedures, and mandates. Florida spends millions of dollars every year to administer inflexible, categorical federal programs that divert precious dollars away from raising student achievement . . . there are 297 state employees to oversee and administer approximately $1 billion in federal funds. By contrast, we have 394 state-funded positions to oversee and administer approximately $7 billion in state funds.[236]

Aid for special education—that is, for those students with disabilities—is an area of particularly large regulatory costs. Federal regulations require that states provide an extensive array of special education services, and even must provide legal support for parents who think that schools aren't doing enough for their children. The result is "a lawyers' playground" that overidentifies target recipients and is subject to rapidly rising costs.[237] One

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The states have complained about the high costs of "mandates" imposed on them from Washington. That phrase often means both aid-related regulations and other legal requirements that impose costs on lower governments and the private sector.

expert called special education "an empire controlled by lawyers, bureaucrats, and interest groups."[238] The National Conference of State Legislatures argues that federal rules for special education cost them billions of dollars more to implement than they receive in federal aid.[239]

The states have complained bitterly about the high costs of the No Child Left Behind Act of 2002. The act requires that all teachers be "highly qualified," that Spanish-language versions of tests be administered, and that certain children have after-school tutoring. The NCSL argues that the act's requirements have cost the states $22 billion but that the federal government has covered only $12 billion of those costs.[240] Fairfax County, Virginia, claims that the act cost it $132 million over the first five years, but that the federal government gave the county only $9 million in related aid.[241] Such claims may or may not be accurate, but American taxpayers bear the costs of programs and regulations whichever level of government imposes them.

Since the 1970s, the states have complained about the high costs of "mandates" imposed on them from Washington. That phrase often means both aid-related regulations and other legal requirements that impose costs on lower governments and the private sector. Other legal requirements include "direct orders" to implement such things as federal labor standards under the threat of civil or criminal penalties and "partial preemptions," which set general standards but allow states to establish their own rules to meet the standards, as under the Clean Air Act of 1970.

The difference between regulations related to aid programs and the federal government simply commanding states to perform certain actions is not always clear-cut. The NCSL notes that with respect to federal disabilities aid programs, if a state refused to participate, it would open itself up to lawsuits for not complying with federal civil rights laws.[242] For this reason and others, the states usually feel compelled to join federal aid programs.

Both federal aid and federal mandates exploded after 1960. The ACIR noted that "during the 1960s and 1970s, state and local governments, for the first time, were brought under extensive federal regulatory controls."[243] By one estimate the number of federal mandates on lower governments had risen to 1,259 by 1980, of which 1,036 were aid-related rules and 223 were direct orders.[244]

By the 1980s there were loud calls to cut the high costs of federal regulations and mandates. The Reagan administration promised to provide regulatory relief, and it made progress in some areas. Yet the ACIR found that there were more statutes with major mandates passed during the 1980s (27) than passed during the 1970s (22) or the 1960s (12).[245] ACIR lamented that federal courts "became involved regularly in telling state and local governments what they must do, not just what they must not do," and that states became "virtually powerless to challenge federal action in the courts on Tenth Amendment grounds."[246] In 1993 an ACIR report found that unfunded federal mandates had

> reached such proportions as to constitute an overextension of the constitutionally delegated powers of the Congress and the Executive, an abridgement of the authority of citizens in their state and local communities to govern their own affairs, and an impairment of the ability of citizens to hold their elected federal officials accountable for the public costs of their decisions. This development is new and alarming. Even more alarming is the weight of recent decisions by the U.S. Supreme Court toward the view that constitutional limits on the federal government's powers are nonjusticiable, even though the Constitution is founded on the premise that the power of the federal government should be limited by the primary reach of state authority.[247]

Policymakers took those concerns seriously, and the new Republican congressional majority in 1995 promised once again to cut mandates and revive federalism. Their main achievement on the regulatory front was the Unfunded Mandates Reform Act of 1995. The act requires that official estimates of the costs of mandates be available during congressional consideration of bills, and it creates some procedural hurdles for bills that include mandates with substantial costs.

UMRA may have deterred some costly new rules from being imposed, but its benefits have been modest. For one thing, Congress has voted to put aside UMRA and impose new mandates whenever it has wanted to, such as for a minimum wage increase in 1996. Also, UMRA did not include aid-related regulations under its definition of "mandate," and thus it didn't do anything to tame the high costs of the federal aid empire.

Today, the federal government continues to impose hundreds of mandates and aid-related rules on state and local governments every year. By one count, federal agencies typically impose more than 800 new rules and regulations on state and local governments each year.[248] The largest rule generators are the Environmental Protection Agency and the Departments of Agriculture, Interior, Health and Human Services, and Homeland Security. Rough estimates of the total costs of unfunded mandates to state and local governments have been up to $800 billion.[249]

However, one should scrutinize all claims of mandate costs to understand what is included. For example, the states often claim that if federal appropriations for a program fall short of an amount previously authorized, it constitutes a "mandate." The No Child Left Behind Act authorized $116 billion of federal spending over six years, but Congress appropriated "only" $73 billion. Liberal interest groups have complained that this "funding shortfall" is an "unfunded mandate" on the states.[250] But these complaints about NCLB do not have the interests of taxpayers in mind—it is taxpayers who fund all government programs and ultimately bear the costs of all mandates. If the federal government were to spend more on NCLB, it would impose higher costs on taxpayers.

The important point to remember is that the costs of federal involvement in state and local activities are higher than just the direct costs of aid. State and local governments spend billions of dollars annually dealing with federal aid regulations and mandates, and that imposes burdens on taxpayers above and beyond the $449 billion annual costs of federal grants themselves.

Let's look at federal aid from the bottom up by considering Fairfax County, Virginia. In 2005 the county received $230 million from 98 separate federal grant programs.[251] Grants included $35 million for housing vouchers, $14 million for school lunches, $1,303 for Citizen Corps, and $1,715 for a bulletproof vest program. When one looks at that aid to Fairfax County, a number of questions come to mind.

First, note that the larger aid programs, housing vouchers and school aid, were originally supposed to be targeted to poor areas in the country. But Fairfax County is one of the wealthiest counties in the United States and could easily afford its own anti-poverty programs, if such programs were a good idea.

Second, consider the smaller aid programs. How many bulletproof vests can the county buy for $1,715? How many hours of police time were consumed by paperwork to receive this small amount of aid? If police officer compensation is $30 an hour, and 20 hours were needed for paperwork, that would eat up a third of the value of the bulletproof vest grant. Of course, Fairfax is capable of funding its own bulletproof vests if they are a priority for the local police.

Fairfax County has developed a detailed reporting structure to document the costs of federal regulations, including aid-related rules and other mandates. One federal regulation requires that local health services be available in various non-English languages. Fairfax estimates that this single regulation costs county taxpayers $350,000 per year.[252] As another example, the costs to manage the Community Development Block Grant program in Fairfax were $644,000 in 2006. And administering the Section 8 housing grant program cost the county $561,000 in 2006.

State and local governments spend billions of dollars annually dealing with federal aid regulations and mandates, and that imposes burdens on taxpayers above and beyond the $449 billion annual costs of federal grants themselves.

All in all, Fairfax estimates that it spent $422 million complying with aid-related rules and federal mandates in 2006, or more than $400 for each resident of the county.[253] Those costs have grown at about 8 percent annually during the past decade. In sum, federal regulatory intervention in state affairs is very costly, and spending on aid as reported in the federal budget only captures a portion of overall federal intrusion into state and local activities.

Conclusion

Under the federal aid system, about $500 billion flows into Washington each year from taxpayers in the 50 states. The funds are allocated by power brokers in Congress and routed through the federal bureaucracies. Then, somewhat depleted, the funds are sent back to the states coupled with thousands of pages of federal regulations to comply with. It is a roundabout funding system that serves no important economic purpose. If it was shut down, state governments and the private sector would step in and fund those activities that they thought were worthwhile.

During the 1970s and 1980s, government auditors, official commissions, and many analysts determined that the aid system needed major reforms. A 1975 GAO report was entitled "Fundamental Changes Are Needed in Federal Assistance to State and Local Governments."[254] Those fundamental changes were never made. Ronald Reagan put the system on a diet for a few years, but the core pathologies were not addressed. Since then, hundreds more programs have been added to the system, the costs have grown higher, and the parochial battles over aid are bigger than ever.

Americans would be better off if the aid system was greatly cut or eliminated and federal policymakers focused on delivering a limited range of high-quality national services such as defense.

The aid system thrives, not because it makes economic sense, but because it maximizes the political benefits of government spending. Aid gets all levels of government involved in each spending activity, which allows each level to blame the others for poor service quality and high tax burdens. The system ingeniously "provides interest groups with multiple opportunities and access points," as Michael Greve notes, and creates interlocking defensive layers that resist any cuts.[255]

This study has focused on the spending pressures and bureaucracy created by aid, but there are many other problems. The top-down micromanagement that comes with aid smothers policy diversity in the states. Aid mutes beneficial tax competition between the states. Aid destroys political accountability—when programs fail, politicians usually point fingers at other levels of government. The federal aid system has been called "the triumph of expenditure without responsibility."[256]

Another problem is the "overload" that aid creates on federal decisionmaking. Each new aid program has stretched thinner the ability of policymakers to deal with crucial national problems because they are dealing with hundreds of local spending issues. In 1925 President Calvin Coolidge argued that aid to the states should be cut because it was "encumbering the national government beyond its wisdom to comprehend, or its ability to administer" its proper roles.[257] Today, when we find out that key members of Congress don't understand the basics of terrorism or bother reading national intelligence reports, we know that Coolidge was right.

Americans would be better off if the aid system was greatly cut or eliminated and federal policymakers focused on delivering a limited range of high-quality national services such as defense. With the coming federal budget crunch from rising costs in Social Security and Medicare, the aid system is an ideal place to find budget savings. Initial reform steps should include converting Medicaid to a block grant to control costs and terminating hundreds of lower-priority aid programs.

Cutting the aid system will require heavy political lifting because the system is deeply entrenched. There are tens of thousands of state and local governments, unions, trade associations, and other groups addicted to the flows of dollars from Washington, and they will try to block any reforms. Ronald Reagan showed that aid can be cut, but actually cutting it will take a fundamental challenge from another determined and reform-minded president.

Appendix: A Portion of Presidential Executive Order 12612: Federalism

October 26, 1987

By the authority vested in me as President by the Constitution and laws of the United States of America, and in order to restore the division of governmental responsibilities between the national government and the States that was intended by the Framers of the Constitution and to ensure that the principles of federalism established by the Framers guide the Executive departments and agencies in the formulation and implementation of policies, it is hereby ordered as follows: . . .

Sec. 2. Fundamental Federalism Principles. In formulating and implementing policies that have federalism implications, Executive departments and agencies shall be guided by the following fundamental federalism principles:

(a) Federalism is rooted in the knowledge that our political liberties are best assured by limiting the size and scope of the national government.
(b) The people of the States created the national government when they delegated to it those enumerated governmental powers relating to matters beyond the competence of the individual States. All other sovereign powers, save those expressly prohibited the States by the Constitution, are reserved to the States or to the people.
(c) The constitutional relationship among sovereign governments, State and national, is formalized in and protected by the Tenth Amendment to the Constitution.
(d) The people of the States are free, subject only to restrictions in the Constitution itself or in constitutionally authorized Acts of Congress, to define the moral, political, and legal character of their lives.
(e) In most areas of governmental concern, the States uniquely possess the constitutional authority, the resources, and the competence to discern the sentiments of the people and to govern accordingly. In Thomas Jefferson's words, the States are "the most competent administrations for our domestic concerns and the surest bulwarks against antirepublican tendencies."
(f) The nature of our constitutional system encourages a healthy diversity in the public policies adopted by the people of the several States according to their own conditions, needs, and desires. In the search for enlightened public policy, individual States and communities are free to experiment with a variety of approaches to public issues.
(g) Acts of the national government—whether legislative, executive, or judicial in nature—that exceed the enumerated powers of that government under the Constitution violate the principle of federalism established by the Framers.
(h) Policies of the national government should recognize the responsibility of—and should encourage opportunities for—individuals, families, neighborhoods, local governments, and private associations to achieve their personal, social, and economic objectives through cooperative effort.
(i) In the absence of clear constitutional or statutory authority, the presumption of sovereignty should rest with the individual States. Uncertainties regarding the legitimate authority of the national government should be resolved against regulation at the national level.

Sec. 3. Federalism Policymaking Criteria. In addition to the fundamental federalism principles set forth in section 2, Executive departments and agencies shall adhere, to the extent permitted by law, to the following criteria when formulating and implementing policies that have federalism implications:

(a) There should be strict adherence to constitutional principles. Executive departments and agencies should closely examine the constitutional and statutory authority supporting any Federal action that would limit the policymaking discretion of the States, and should carefully assess the necessity for such action. To the extent practicable, the States should be consulted before any such action is implemented. Executive Order No. 12372 ("Intergovernmental Review of Federal Programs") remains in effect for the programs and activities to which it is applicable.

(b) Federal action limiting the policymaking discretion of the States should be taken only where constitutional authority for the action is clear and certain and the national activity is necessitated by the presence of a problem of national scope. For the purposes of this Order:

(1) It is important to recognize the distinction between problems of national scope (which may justify Federal action) and problems that are merely common to the States (which will not justify Federal action because individual States, acting individually or together, can effectively deal with them).

(2) Constitutional authority for Federal action is clear and certain only when authority for the action may be found in a specific provision of the Constitution, there is no provision in the Constitution prohibiting Federal action, and the action does not encroach upon authority reserved to the States.

(c) With respect to national policies administered by the States, the national government should grant the States the maximum administrative discretion possible. Intrusive, Federal oversight of State administration is neither necessary nor desirable.

(d) When undertaking to formulate and implement policies that have federalism implications, Executive departments and agencies shall:

(1) Encourage States to develop their own policies to achieve program objectives and to work with appropriate officials in other States.

(2) Refrain, to the maximum extent possible, from establishing uniform, national standards for programs and, when possible, defer to the States to establish standards.

(3) When national standards are required, consult with appropriate officials and organizations representing the States in developing those standards. . . .

RONALD REAGAN
THE WHITE HOUSE
October 26, 1987.
Exec. Order No. 12612, 52 FR 41685, 1987 WL 181433 (Pres.)

Notes

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13. MacDonald, p. 90. See also Richard F. Weingroff, "For the Common Good: The 85th Anniversary of a Historic Partnership," *Public Roads* (Federal Highway Administration) 64, no. 5 (March–April 2001).

14. MacDonald, p. 30.

15. Galloway.

16. Weingroff.

17. See Galloway, chap. 16.

18. Quoted in Galloway.

19. Quoted in MacDonald, p. 238.

20. Galloway.

21. Ibid.

22. Ibid.

23. I excluded these funds from Figure 3 because they were temporary. See Canada, p. 6.

24. This was the Commission on Intergovernmental Relations. See Laurence J. O'Toole, "Overview," in *American Intergovernmental Relations*, ed. Laurence J. O'Toole (Washington: Congressional Quarterly, 1985), p. 9.

25. Canada, p. 7.

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